

INTERNATIONAL POLITICAL ECONOMY OF NEOLIBERAL STRUCTURATION  
OF TURKISH ELECTRICITY MARKET

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STRUCTURATION OF TURKISH ELECTRICITY MARKET**

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## ABSTRACT

### INTERNATIONAL POLITICAL ECONOMY OF NEOLIBERAL STRUCTURATION OF TURKISH ELECTRICITY MARKET

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This thesis focuses on neoliberal structuration of the Turkish electricity sector from the combined perspective of international political economy and structural power; analyses the relationship between external and internal root causes of introduction of liberalisation, defines obstacles before completion of liberalisation process, and examines differences between introduction and stagnation phases of Turkish electricity liberalisation. It examines why and to what extent do changes in global power structures influence domestic energy policy preferences of Turkey. In other words, political economic determinants of an economic policy in energy sector will be explored, through lens of global power structures. Thus, a theoretically-informed practical approach to external and internal political economic features of electricity liberalisation process in a typical developing country and to transformative power structures in international system is presented which is strongly needed in energy studies literature. Besides, implications about Turkey's place in the international political economy and Turkey's domestic energy policy are made.

**Keywords:** Electricity Market, Liberalisation, Turkey, Energy Policy, Structural Power.

## ÖZ

### TÜRKİYE ELEKTRİK PİYASASINDAKİ NEOLİBERAL YAPILANMANIN ULUSLARARASI SİYASİ EKONOMİSİ

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Tez, Türkiye elektrik piyasasının neoliberal yapılandırılmasına, uluslararası siyasi ekonomi ve yapısal güç pencerelerinden odaklanmakta, serbestleşmenin başlamasının dış ve iç sebepleri arasındaki ilişkiyi analiz etmekte, serbestleşme sürecinin tamamlanmasının önündeki engelleri tanımlamakta ve elektrik piyasası serbestleşmesinin başlangıç ve duraklama evreleri arasındaki farklılıkları incelemektedir. Küresel güç yapılarındaki değişimlerin, Türkiye'nin iç enerji politikası tercihlerini neden ve ne kadar etkilediği cevaplanmaktadır. Diğer bir deyişle, enerji sektörüne dair iktisadi bir politikanın, uluslararası siyasi ekonomik belirleyicileri, küresel güç yapıları penceresinden keşfedilerek, gelişen bir ülkedeki elektrik piyasası serbestleşmesinin dış ve iç siyasi ekonomik özelliklerine ve uluslararası sistemdeki güç yapılarının dönüştürücü etkilerine, enerji çalışmaları literatüründe ihtiyaç duyulan teorik temelli pratik bir yaklaşım sunulmaktadır. Türkiye'nin uluslararası siyasi ekonomideki yeri ve Türkiye'nin iç enerji siyaeti hakkında çıkarımlar da yapılmaktadır.

**Anahtar Kelimeler:** Electricity Market, Liberalisation, Turkey, Energy Policy, Structural Power.

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## LIST OF ABBREVIATIONS

|       |                                                               |
|-------|---------------------------------------------------------------|
| bcm   | : billion cubic meters                                        |
| BO    | : Build-Operate                                               |
| BOT   | : Build-Operate-Transfer                                      |
| BOTAŞ | : Petroleum Pipeline Corporation                              |
| BP    | : British Petroleum                                           |
| CPI   | : Consumer Price Index                                        |
| DGP   | : Balancing Power Market                                      |
| DPT   | : State Planning Organisation                                 |
| EBRD  | : European Bank for Reconstruction and Development            |
| EMO   | : Chamber of Electrical Engineers                             |
| EPDK  | : Energy Market Regulatory Authority                          |
| EPİAŞ | : Turkish Energy Exchange                                     |
| EPK   | : Electricity Market Law                                      |
| ETKB  | : Ministry of Energy and Natural Resources                    |
| EU    | : European Union                                              |
| EÜAŞ  | : Electricity Generation Corporation                          |
| FDI   | : Foreign Direct Investment                                   |
| GDP   | : Gross Domestic Product                                      |
| ĞİP   | : Intra-day Electricity Market                                |
| GÖP   | : Day-Ahead Electricity Market                                |
| IEA   | : International Energy Agency                                 |
| IMF   | : International Monetary Fund                                 |
| JDP   | : Justice and Development Party                               |
| kbpd  | : thousand barrels per day                                    |
| ktoe  | : thousand tonnes of oil equivalent                           |
| kWh   | : Kilowatt hour                                               |
| MMO   | : Chamber of Mechanical Engineers                             |
| MoD   | : Ministry of Development                                     |
| MoF   | : Ministry of Finance                                         |
| MW    | : Megawatt                                                    |
| OECD  | : Organisation for Economic Co-operation and Development      |
| OG    | : Official Gazette                                            |
| PA    | : Privatisation Administration                                |
| PMUM  | : Market Financial Reconciliation Centre                      |
| SDR   | : Special Drawing Right                                       |
| TCMB  | : Central Bank of the Republic of Turkey                      |
| TEAŞ  | : Turkish Electricity Generation and Transmission Corporation |
| TEDAŞ | : Turkish Electricity Distribution Corporation                |
| TEİAŞ | : Turkish Electricity Transmission Corporation                |
| TEK   | : Turkish Electricity Enterprise                              |
| TETAŞ | : Turkish Electricity Trading and Contracting Corporation     |
| TKİ   | : Turkish Coal Enterprise                                     |
| TL    | : Turkish Lira                                                |
| TOR   | : Transfer of Operating Rights                                |
| TPAO  | : Turkish Petroleum Corporation                               |

|        |                                                      |
|--------|------------------------------------------------------|
| TSKB   | : Turkey Industrial Development Bank                 |
| TTK    | : Turkish Hard Coal Enterprise                       |
| UNCTAD | : United Nations Conference on Trade and Development |
| US     | : United States of America                           |
| YEKA   | : Renewable Energy Resource Zone                     |
| YEKDEM | : Renewable Energy Resources Support Mechanism       |
| WEC    | : World Energy Council                               |



## CHAPTER 1

### INTRODUCTION

Energy matters in international relations. This is mainly because energy is intrinsic to both economic and political relations at both national and international-level. Energy is even 'blood' of the economy, an oft-cited anonymous cliché says. For ordinary people, not a physical form of energy itself, but energy services such as lighting, heating, or transportation are important in their daily lives. In a wider sense, energy is a major input at different levels of all economic activities, in production, consumption, and transportation of both raw materials and final products. Without it, no economic activity, be it productive or destructive, can be undertaken in a contemporary economy. This is why Susan Strange regards it rightly as the “fifth factor of production”, alongside land, labour, and capital (and technology).<sup>1</sup>

Although the intersection of politics and economics includes a number of other issues, energy is at the very heart for a number of reasons. The significance of energy for the discipline of International Relations mainly sources from its vital position in a variety of issues which the discipline studies, such as international trade, international security, international finance, foreign policy and domestic roots of it, and relationships between states and international organisations. It has close connections with areas like development studies or technopolitics, and is strictly tied to technological and environmental change from a historical view. Therefore, energy can and should be subjected to a political economic analysis

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<sup>1</sup> Susan Strange, *States and Markets*, London, Continuum, 1994, pg. 190.

with the purpose of answering some of the questions which the discipline of International Relations asks. In other words, studying on energy from an International Relations standpoint alone may not help explaining all dynamics of the relations among nations, but it can help understanding how energy affects inter/national political economy.

In this sense, the energy transition which the world witnessing has a lot to teach about the energy studies, international political economy, and international relations, leave aside its economic or technical aspects. The current energy transition is one away from a carbon-intense and state-led, and towards a carbon-free and market-oriented one. Thus, it becomes a 'dual transition' which includes two simultaneous transitions, towards a more environment-friendly and more privately owned system. At the core of this dual energy transition, there is prioritisation of more environment-friendly and renewable energy resources and application of market-oriented reforms, both go on hand in hand. In various countries from different parts of the world this dual transition is observable, but at different paces. Some countries are more focused on green aspects of the transition, and some others are more interested in market reforms. In any case, this dual energy transition seems a structural transformation since it demonstrates a global character. In the electricity sector, the transition is more ostensible in the form of liberalisation.

This thesis focuses on the latter transition, liberalisation, and its reflections on the electricity sector, with a structural understanding, and aims to explore the effects of this structural change on Turkey's domestic energy policy preferences. Therefore it asks how and why changes in global power structures influence domestic energy policy preferences of Turkey; and claims that these changes create a tendency in Turkey to adapt to changes in the energy structure, but the adaptation becomes a hybrid and non-linear one due to internal factors. In other words, the puzzle in this thesis is to identify the diverting effects of internal



economic and political factors on how global power structures influence domestic energy policy preferences of Turkey.

At the core of this thesis, there is a basic premise assuming that the electricity liberalisation is a structural change at global scale. Why it is apt to regard the electricity liberalisation as a structural change depends upon two foundations basically. The first is the global character of electricity liberalisation; the second is the emergence of a new organising principle in the electricity industry. The former, its global character, is easier to observe and visualise on a world map. Many prominent countries from all over the world opted for liberalising their electricity sectors completely or partially. This spatial diffusion of electricity liberalisation to a diverse set of countries proves that the electricity liberalisation is caused by some structural factors influencing countries' decisions. A more detailed analysis of policy diffusion mechanisms is given later. The latter, emergence of a new organising principle, has shaped the ways of thinking and doing things in the electricity sector, and sources from a variety of factors ranging from technology to ideology. One of these factors is technological developments decreasing necessary economies of scale in a way to shake market composition and making real time market interactions possible. More importantly, an ideological shift in the political economic understanding in developed countries gave rise to new applications in finance and governance which later diffused globally and shaped how things shall be done in the electricity sector. As a reflection of these changes, the organising principle of the electricity industry evolved into another, and the way nations organise their electricity sectors was affected by this as well. The effects of emergence of a new organising principle on electricity liberalisation is analysed in the respective part.

In fact, electricity liberalisation is only an end result of a 'chain reaction' which brought consecutive changes in different areas of global political economy. At the first step of the chain reaction, there was global neoliberal turn; all started

with a grand transformation in global political economy in favour of neoliberalism (see Figure 1.1). With the help of diffusion of neoliberal values and policies at the global scale, neoliberalism obtained dominance and legitimacy in shaping the political economic framework at the beginning of 1980s. At the second step of the chain reaction there was a general transformation in both finance and knowledge structures. The adoption of new financial and ideological principles and applications by the prominent actors in the global power structures changed rules of the game and forced the others to obey and follow.

When global primary power structures (security, production, finance, and knowledge) started to evolve in tandem with neoliberalism, this triggered similar transformations in the secondary structures, such as the energy structure, due to determining character of the primary structures over the end results in the secondary structures. Therefore, a shift in the organising principle of the electricity sector was the third step in the chain reaction. With the new organising principle, electricity liberalisations spread to both developed and developing countries from all over the world, albeit with different motivations behind. The electricity liberalisation in Turkey was just a reflection and product of this global chain reaction at the national level. The thesis examines this ultimate product of the chain reaction, by tracing the reaction step by step in order to comprehend the fundamentals.

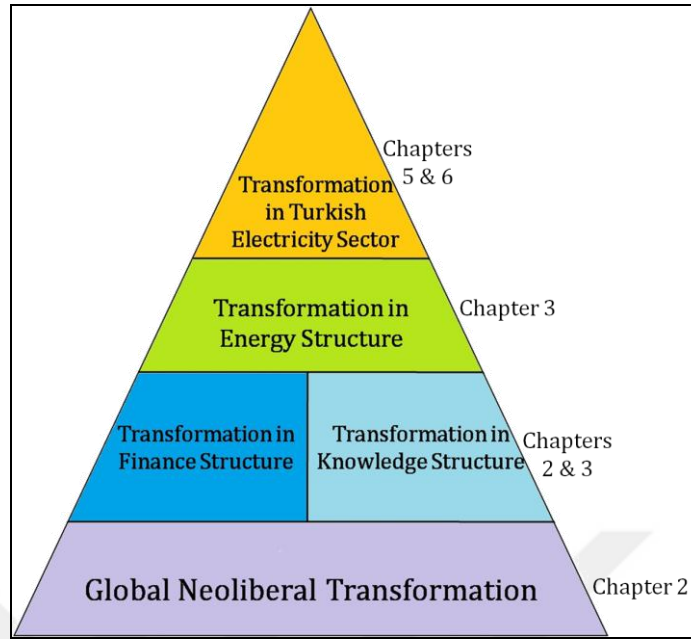


Figure 1.1 The Chain Reaction (Source: Own Elaboration)

This study does avoid from assigning a positive or negative meaning to neoliberalism and liberalisation deliberately, and neither supports nor opposes to the neoliberal structuralisation in the electricity sector on normative grounds. Making a normative evaluation is beyond this thesis which examines the global causes and national reflections of it. It conceptualises liberalisation with its theoretical and practical dimensions, connects it with the energy sector and exemplifies its application from Turkey's electricity liberalisation process. In fact, the concept of liberalisation is new neither for scholars, nor for practitioners. Following the golden age of planning, 'leaving it to the markets' moved to top of the economic agenda in the late 1970s and 1980s. Then it was applied in different sectors in different parts of the world, but it is safe to say that it gained pace particularly after the capitalist victory in the Cold War.

A question needs to be addressed at this point: what is liberalisation? What does this study imply when it uses the term liberalisation? Economically, in a narrower sense, liberalisation corresponds to opening a publicly-owned

economic sector to private sector competition, as a standard textbook definition. First of all, state intervention should be minimised in a number of ways including privatisation of state assets, gradual abolishment of price regulations (or minimisation of it) and keeping regulatory risk under control steadily. Secondly, it requires a suitable environment for new entrants in the market, in order to protect new companies against the big, incumbent ones. Without enough players at the field, the competition game cannot be truly competitive. This textbook prescription has been applied to many industries before the energy sector; among them are airlines and railways industry, telecommunications sector, alcohol, tobacco sectors etc.

Liberalisation of the energy sector (electricity, in this study) is very similar to liberalisation of network dependent sectors including natural monopolies and vertically integrated companies which are publicly owned giants, in most cases. For this reason, in such sectors, a textbook prescription for liberalisation includes creating more rooms for private sector competition by privatisation of state assets, issuing licences for new investors, and, most importantly, sustaining third party access to the physical network. Thus, since the electricity sector is network dependent and demonstrates characteristics of natural monopolies, there are several similarities with the other cases of liberalisation alongside differences springing from the political and strategic importance of the energy sector. Moreover, for the electricity market, because demand and supply should be balanced instantly in real time, a monopolistic system operator is required; this creates an upper limit for liberalisation. In fact, electricity liberalisation process is complete nowhere and all countries face with obstacles in their own liberalisation processes, according to the International Energy Agency (IEA).<sup>2</sup> Sharing this point of view, this study will analyse background of the successful progress and will shed light on the obstacles in the Turkish case.

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<sup>2</sup> IEA, *Lessons from Liberalised Electricity Markets*, OECD Publishing, 2005, pg.11.

In a nutshell, it is safe to argue that electricity liberalisation is an outcome of changes in the energy structure which have been triggered by the chain reaction, by the changes in the global finance and knowledge structures. By depending upon the two foundations which have been mentioned above briefly, this study utilises structural power concept of British scholar Susan Strange. The global neoliberal turn and its reflections on the global finance and knowledge structures will be scrutinised from the perspective of energy structure.

### **1.1: About the Case Selection**

In the above mentioned framework, this thesis focuses on the transformation of the Turkish electricity sector from an international political economy perspective with a structural understanding. Originality of the thesis springs exactly from this understanding, and from the way it handles the topic. The electricity liberalisation is generally studied by focusing on domestic motivations in a liberalising country. Yet, this study sees electricity liberalisation examples in different countries as reflections of the same global structural trend, and examines the topic from a wider angle. It analyses the interactions between the external and internal root causes of the introduction of liberalisation, and investigates the obstacles preventing further advancement and completion of the liberalisation process. On which grounds the study assumes that the Turkish electricity liberalisation is not yet complete and stagnated are explained in the respective part later. Basically, the thesis categorises electricity sector liberalisation in Turkey within the framework of global rise of neoliberalism and perceives Turkey's endeavours, generally as an effort to adapt to the global power structures, and specifically to the changes in the energy structure. In other words, it tries to understand in what ways electricity liberalisation, as a foreign-inspired policy prescription, affected Turkey's domestic energy policy preferences. By placing external and internal political economic factors into the global power structures, such as finance,

knowledge, and energy structures, it targets to produce results about the main research question.

At first glance, the topic may not seem related to the field of international political economy to some. However, the reasons which triggered introduction and, later, caused stagnation in the liberalisation process teach much about the nature of and changes in the global power structures, global neoliberal transformation, international political economy of energy, and the positions of developing countries in the international structures of political economy around which interactions among state and non-state actors revolve. Therefore, the electricity liberalisation is used to exemplify the arguments put forward by focusing on the political and economic factors which caused the initiation or stagnation in the process. In other words, inter/national political economic and structural determinants of a domestic policy in an economic sector are explored. Thus, a theoretical framework to the domestic and international political economic features of the electricity liberalisation process in a typical developing country and to the transformative power structures of the international system are presented which are strongly needed in the energy studies literature.

Although the liberalisation process looks like a topic which falls within the ranges of economics, political science or perhaps business administration, it is strictly tied to countries' foreign political and economic relations for a number of reasons, and there is a direct link between countries' economic relations at the levels of foreign and domestic. This is more so especially for the developing countries. Basically, due to Turkey's developing country position in the global economy, the country is structurally dependent upon foreign financial flows which is strictly bound to the economic and political compatibility with the core powers in the system and with the expectations of the global investors and credit markets. The neoliberal restructuring has become the organising principle of the electricity business at a global scale, and in order to get financed, countries, including Turkey, needed to adjust their electricity sectors with this

new organising principle. In other words, liberalisation process in the Turkish electricity sector was a necessity for adaptation to the global financial structure in order to secure continuous supply of much needed foreign financial resources.

Similar to the financial structure, the global knowledge structure urged Turkey towards conducting electricity market reforms within the agenda set by the core countries following the end of the Cold War. Despite its rise in the 1980s, 'leaving it to the markets' understanding became completely triumphant especially after the Cold War, as parallel to the ascending dominance of neoliberalism. On one hand, standard 'one-size-fits-all' prescriptions promoted by the international institutions and platforms such as the International Monetary Fund (IMF), the World Bank, Organisation for Economic Co-operation and Development (OECD), the Washington Consensus etc, drove Turkey (and other similar countries) to electricity liberalisation.<sup>3</sup> On the other hand, academic literature of the time and reports of international consulting firms and rating companies which are taken into consideration by portfolio investors and multinational corporations showed the same ultimate end: liberalisation of electricity markets.

Selection and diffusion of norm-setting values and know-how on certain issues is the core of knowledge structure. Only by depending upon these, can countries legitimise their policies and actions in order to obtain foreign support from the global structures in whatever form they need, such as financial or political. Thus, the knowledge structure becomes the framework delineating borders of conceivable and possible alternatives for countries in any given area, including sectoral policies, such as electricity. The Turkish decision-makers, both by being affected from this know-how about the ways and benefits of electricity market

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<sup>3</sup> Dani Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform", *Journal of Economic Literature*, Vol. 46 (December 2006), pg. 973.

liberalisation and by being aware of the need for international financial support in order to secure the sustainable flow of credit and foreign investment to the crisis-torn country, found their way to electricity market liberalisation in early 2000s.

The connection between Turkey's electricity liberalisation efforts and the country's structural relationship with the international economy is seen better when the reasons strengthening the need for reform are examined. Therefore, the factors necessitating liberalisation will be examined under four categories as external economic and political factors, and internal economic and political factors. Basically, supportive external and internal economic factors coincided in a timely manner and were facilitated by a suitable political environment at external and internal realms. On the other hand, this completely positive situation started to erode during the stagnation period due to deteriorating domestic economic outlook which was further exacerbated by the domestic political turmoil. Thus, full electricity liberalisation in Turkey could not be achieved, although it reached a sufficient level of maturity at its zenith.

After defining liberalisation and stagnation conceptually, it is appropriate to mention the attributes of these two phases by touching upon the external and internal political economic factors roughly. The main problem necessitating the liberalisation was huge investment need of the electricity sector in Turkey. The investment necessity was so pressing for the public budget that the governments coming from diverging ideological camps converged on attracting more private investors to the sector, regardless of how their ideological origins approached to the idea of inclusion of private entrepreneurs in the sector. The first steps came as early as mid-1980s, but the piecemeal reform did not evolve into a comprehensive restructuring towards liberalisation. Finally, after nearly two decades of fragmentary reform, a full scale liberalisation could be initiated only in 2001. Nevertheless, starting from 2016, liberalisation endeavours



stagnated and even regressed in some areas due to emerging financial sustainability risks and politically ambiguous atmosphere.

The electricity liberalisation in Turkey was a reflection of the global neoliberal turn on the country. For this reason, external economic and political factors severely influenced the initiation of the process. Turkey's target of transforming its electricity market into an independently regulated, privately owned and competition-based one coincided with a suitable atmosphere in the external realm. At the external economic level, international financial institutions had a significant role in urging Turkey to reform through not only encouraging with financial and know-how support, but also forcing during the economic crisis times. Alongside the contributory effects of the international financial institutions, boosting foreign direct investment inflow and low interest rates at global money markets contributed to the process positively, when Turkey initiated electricity liberalisation programme in 2001. At the external political level, the international organisations invigorated Turkey by creating a positive demonstration effect and reducing the transaction costs. Among the international organisations, the European Union (EU) made a particularly supporting effect on the process through keeping liberalisation as a requirement of the energy chapter, and providing the Turkish governments with possible lucrative returns.

Having supported by the convenient external economic and political factors, the electricity liberalisation idea found a much stronger support from the level of government due to inability of the public sector in meeting the current and future investment needs with weak public financial resources. On the other hand, eagerness of the private investors and banks to invest in the electricity sector created a timely coincidence. Despite the existence of opposing internal groups at bureaucracy and civil society, persistent support from the governments succeeded to tackle the opposition.

After nearly one and a half decade of successful electricity liberalisation, economic atmosphere, especially at the internal realm, started to change. At the external economic level, the international financial institutions sustained their support, despite the emergence of a comparatively less encouraging external economic realm which manifested itself in the forms of dwindling foreign direct investment inflow and raising interest rates at the global money markets. Furthermore, due to strict environmental conditions of western financial institutions, Turkey turned its face increasingly to non-western financial sources for realisation of several projects. For example, projects targeting utilisation of local lignite resources were mostly financed by oil-rich Arabian countries or Chinese banks.<sup>4</sup> This can have some side effects in the long run, if China truly obtains its stake in shaping the global finance and knowledge structures. Contrary to relatively less supportive attribute of the external economic factors, external political factors continued to be completely supportive in terms of the effects of international organisations and of the EU. However, as will be analysed later, the energy structure is characterised by the non-hierarchical regime complexity which corresponds to the existence of many overlapping energy organisations focusing on similar issues and damaging each others' effectiveness. Therefore, due to non-hierarchical regime complexity which hampers effectiveness of international organisations in the energy structure, there are quite few ways to keep governments on liberalisation way by 'disciplining' them. The regime complexity in the energy structure is analysed later.

What distorted the flow of restructuring process more than everything was the internal economic environment. At the internal economic level, decreasing demand growth and over-optimism about consumption estimates created excess supply, and this made a preventive effect on further liberalisation. At the

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<sup>4</sup> Beth Walker, "Chinese Investment Stokes Global Coal Growth", *The Diplomat*, September 24, 2016, <http://thediplomat.com/2016/09/chinese-investment-stokes-global-coal-growth/>; Ata Ufuk Şeker and Oğuzhan Özsoy, "Turkey to receive US\$12 billion for coal investment", *Anadolu Agency*, August 7, 2014, <http://aa.com.tr/en/economy/turkey-to-receive-us-12-billion-for-coal-investment/133523>.

same time, depreciation in the Turkish Lira (TL) and a general economic slowdown caused deterioration in the general economic conditions. This contributed to stagnation as well. If the necessary steps had been undertaken in a timely fashion, the stagnation could have been avoided. Nevertheless, unsuitable internal political environment prevented the governments to take bold steps which were necessary to advance the liberalisation process.

To reiterate, Turkish electricity liberalisation was an adaptation endeavour, generally to the changes in the global power structures, and, specifically to the current organising principle of the electricity business. The liberalisation process started in a much more suitable environment in comparison to the later stages. In that environment, a mix of timely coincidences was the prominent reason behind the success in the electricity market liberalisation process. Domestic need at both economy and politics coincided with an appropriate and contributory external atmosphere at both realms, and was empowered by the existence of an external disciplining edge. In further phases, when economic and political motivations at the domestic level for further liberalisation weakened, the process slowed down, despite continuing encouraging external atmosphere. This shows that the global power structures create a tendency in Turkey to adapt to changes in the global energy structure, but pace of adaptation remains parallel to internal factors.

## **1.2: Methodology**

If research is a journey, the main research question is wanderlust, and methodology is like deciding the best possible routes on the map, in that journey. One should have wanderlust first, then she investigates the routes. Within the context described in the previous part, inspiration and the main research question of the thesis is ‘why and to what extent do changes in the global power structures influence domestic energy policy preferences of Turkey?’ In order to answer the main research question by channelling the

research agenda, some auxiliary research questions were needed, and the chapters of the thesis were organised around these auxiliary research questions. Therefore, the puzzle in this thesis is to identify the diverting effects of internal factors on how changes in the global power structures influence domestic energy policy preferences of Turkey. As an extension of this argument, the study analyses economic and political factors necessitating initiation of liberalisation and those ones which prevent further advancement of the process after significant achievements. It can briefly be summarised that the Turkish governments opted for further liberalisation in cases of a strong structural necessity or the existence of higher possible returns than the perceived political costs.

The dependent variable of the study is domestic energy policy preferences of Turkey; it is represented by electricity liberalisation in the study. This reflects the effects of the examined factors on the pace of reform. The independent variable of the study is global power structures; they can change independently or interactively. By utilising the structural power concept of Susan Strange, the study investigates changes in the global finance and knowledge structures, and their reflections on the energy structure. Although I personally think that economic and political factors cannot be detached from each other in real life, this study analyses economic and political spheres as if they were detachable, due to methodological usefulness. Each sphere is decomposed into two realms as external and internal, and the influential prominent factors in these realms are examined as external economic, external political, internal economic, and internal political factors. This system is applied for both introduction and stagnation phases. Thus, each phase is analysed within the same framework symmetrically.

The study includes an intervening variable as well; yet, it comprises the package of internal factors, rather than being a single determinant. The internal factors determine the attribute and feasibility of further liberalisation. This

corresponds to the ratio of 'possible returns / perceived political costs'; this ratio influences the decisions of governments about advancement of the liberalisation process. Simply, if the possible returns / perceived political costs ratio is greater than one, this means that further liberalisation is feasible, not only economically, but also politically. On the other hand, if the result is between zero and one, it means that further liberalisation is politically unfeasible, regardless of the degree of economic feasibility. Here, this ratio does not correspond to a mathematical operation, but is used to point to a simple cost-benefit analysis in a decision maker's mind. Also, it is important to re-emphasise that it is hard to take political and economic spheres detached; particularly regarding the internal realm, neither costs nor benefits at the political sphere are dissociated from the economic sphere. Economic un/happiness of the voters can affect the reshuffling of the political capital among the politicians. Therefore, internal economic factors may have influence on the internal political factors.

Thus, the intervening variable is used to incorporate the effects of internal factors and decision makers who are falsely taken as disinterested human agents most of the time. Regarding the scope of this thesis, it is safe to put forward that the pragmatic approaches of the Turkish decision makers can be explained through theoretical lenses such as public choice theory, and is a typical example of supremacy of survival to other motives for an elected government. That is to say, external factors (independent variable) will be examined by utilising structural power conception of Susan Strange, and public choice theory analysis of internal factors (intervening variable) will be incorporated to Strange's eclectic approach. How changes in the global power structures affect a developing country's domestic economic policy choices, what kind of political economic factors affect liberalisation, how different factors correlate with each other, and why governments make specific economic decisions is valuable for understanding and explaining socio-economic phenomena. This thesis elaborates to discover these aspects of the Turkish case. Thus, a humble step will be taken towards a "better IPE theory" which needs to

include some elements on how governments make decisions, as Baldwin advised.<sup>5</sup>

In terms of classification, there are four identifiable types of research in general, as exploratory, descriptive, explanatory, and evaluation research. If the subject is new, or nothing or only a little is known about a subject, exploratory researches endeavour “to formulate more precise questions that we can address in future research”, and are represented by ‘what’ questions often.<sup>6</sup> Descriptive research gives a detailed account of a specific situation, and uses ‘how’ questions more frequently.<sup>7</sup> Explanatory research identifies the reason something occurs and depends upon the results of previous exploratory and descriptive researches, and ‘why’ questions are more apt to use for this type of researches.<sup>8</sup> Lastly, evaluation research tries to determine the effects of any specific endeavour. This thesis combines what, how and why questions during its chapters; hence it demonstrates an exploratory, descriptive, and explanatory research character.

The auxiliary research questions around which the chapters are organised are as follows:

A) What are the attributes and policy diffusion mechanisms of neoliberal structuralisation? (Chapter 2)

B) How does neoliberal structuralisation and structural power concept relate to the energy structure? (Chapter 3)

C) What is the current outlook of Turkey in energy, electricity, and electricity liberalisation? (Chapter 4)

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<sup>5</sup> Robert Baldwin, in Jaime De Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration*, New York, Cambridge University Press, 1993.

<sup>6</sup> W. Lawrence Neuman, *Social Research Methods: Qualitative and Quantitative Approaches*, Essex, Pearson Education Limited, 2014, pg. 38.

<sup>7</sup> Ibid., pg. 38.

<sup>8</sup> Ibid., pg. 40.

D) How and why did global power structures influence Turkey's electricity sector policy towards liberalisation? (Chapter 5)

E) Why did electricity liberalisation stagnate in Turkey, despite constant global power structures? (Chapter 6)

By answering the question A, the thesis explores roots, features, and policy diffusion mechanisms of neoliberal structuralisation. The question B connects with that, and describes the energy structure and the role of neoliberal structuralisation in the changing electricity substructure. Thus it will both describe the current picture of energy structure, and illustrate the electricity substructure, as an original contribution. The question C will explore the current state of the Turkish electricity sector, to prepare the basis upon which the chapters about Turkish electricity liberalisation will be based. The questions D and E will analyse and explain the causes and determinants of electricity liberalisation in Turkey. These questions combined will address the main research question in the conclusion.

Methodologically, there are three main types of research methods as quantitative, qualitative, and mixed methods. The quantitative methods deal with numerically representable data, while the qualitative methods concerning with “intersubjective understandings, feelings, opinions, and beliefs.”<sup>9</sup> However, in the mixed methods, a combination of quantitative and qualitative methods is used in different combinations. Personally, I think that the best way to understand the highly complex and interrelated socio-economic phenomena is to benefit from both of the methods in a mixed way in social sciences. Therefore, this thesis demonstrates a mixed methods character methodologically. That is to say, quantitative and qualitative methods are used parallel to each other. However, “the instrument of choice for the qualitative researcher is the human

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<sup>9</sup> Bob Matthews and Liz Ross, *Research Methods: A Practical Guide for the Social Sciences*, Essex, Pearson Education Limited, 2010, pp. 141-142.

observer”, and for this reason, qualitative researchers emphasise improving human observation, without any claim for the reliability and validity in a rationalistic sense.<sup>10</sup> If qualitative research method were chosen, there would have been more validity and reliability problems about acceptability of the arguments.

At this point, triangulation appears as a necessary element of resorting, especially for the mixed methods approach. Triangulation is “soliciting data from multiple and different sources as a means of cross-checking and corroborating evidence and illuminating a theme or a theory.”<sup>11</sup> In other words, triangulation is a way of cross-checking the results acquired with different methods and from different sources, in order to increase the validity and reliability of the research findings. In this study, quantitatively and qualitatively available data are compared through triangulation ways, and are used only if they confirm each other.

In terms of data collection, this thesis benefits from a wide range of primary and secondary sources. Among primary sources are various datasets, publications, official documents published by the United Nations Conference on Trade and Development, World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development, World Trade Organisation, International Energy Agency, World Energy Council, European Union, Turkish Electricity Generation Corporation, Turkish Energy Market Regulatory Authority, Turkish Energy Exchange, Turkish Ministry of Energy and Natural Resources, central banks of Turkey and of some other related countries. At the same time, semi-structured interviews with energy elites including bureaucrats, civil society representatives, and entrepreneurs were conducted. Inclusion of

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<sup>10</sup> Kjell Erik Rudestam and Rae R. Newton, *Surviving Your Dissertation: A Comprehensive Guide to Content and Process*, London, Sage Publications, 2014, pg. 109.

<sup>11</sup> Ibid., pg. 114.



many interviewees from diverging political economic backgrounds is designed to prevent discriminate sampling which creates important troubles for using interview method. All interviewees were asked with some general questions about the scope of the study in a standard way, and then, different spontaneous questions were directed in accordance with the course of conversation and with the background of the interviewee. Alongside these primary sources, various secondary sources are used to validate the accessible documents, comments and detected dis/continuities; these sources involve academic and sometimes non-academic pieces of literature. In this manner, available quantitative and qualitative data were cross-checked in accordance with the necessities of triangulation.

The thesis depends upon a case study on the Turkish electricity market liberalisation in its core. In order to understand the causations and changes in a temporal manner, process tracing approach is used. "Process tracing is a research method for tracing causal mechanisms using detailed, within-case empirical analysis of how a causal process plays out in an actual case".<sup>12</sup> It was first developed by Alexander L. George and was defined as the use of "histories, archival documents, interview transcripts, and other sources to see whether the causal process a theory hypothesizes or implies in a case is in fact evident in the sequence and values of the intervening variables in that case".<sup>13</sup> "The goal of process tracing is ultimately to provide a narrative explanation of a causal path that leads to a specific outcome".<sup>14</sup> According to George and Bennett, the main goal in process tracing is to understand whether and how potential causes affected a certain change.<sup>15</sup> Thus, the "key feature of process tracing is the

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<sup>12</sup> Derek Beach, "Process-Tracing Methods in Social Science", *Oxford Research Encyclopedia, Politics*, 2019, pg. 1.

<sup>13</sup> Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences*, Massachusetts, MIT Press, 2005, pg. 6.

<sup>14</sup> Pascal Venesson, "Case Studies and Process Tracing: Theories and Practices", Donatella della Porta and Michael Keating (eds.), *Approaches and Methodologies in Social Sciences: A Pluralist Perspective*, Cambridge University Press, pg. 235.

<sup>15</sup> George and Bennett, op. cit., pg. 206.

development and testing of alternative ideas about how and why change might have happened.”<sup>16</sup> With these attributes, process tracing is particularly suitable for this study since it is focused on how causal processes work in real world cases and works with within-case mechanistic evidences. It is exactly what this study aims to explore in the Turkish electricity liberalisation process. Yet, process tracing is employed not as a hypothesis testing method, but as a general methodological approach.

### **1.3: Outline of the Chapters**

To recapitulate, this thesis analyses the neoliberal structuralisation process in the Turkish electricity sector from an international political economy perspective. It defines what liberalisation means in general and for the energy sector, applies it to transformation of the Turkish electricity sector as an example of a network dependent industry, examines the effect of global power structures by decomposing them into external and internal economic and political factors, makes implications for Turkey, and addresses the aforementioned research questions. Thus, this study fills a gap at the intersection of the literatures of international political economy, Turkish studies, and energy studies, and sheds light on the drivers of change in the global energy structure, determinants of electricity liberalisation in a typical developing country, and transformative effects of global power structures on it.

The thesis comprises seven chapters in total and each handles with a step in the chain reaction which have been mentioned earlier (see Figure 1.1). After the introduction, in the second chapter, the thesis begins first with focusing on the meaning of what liberalisation is. The organising question of this chapter is ‘what are the attributes and policy diffusion mechanisms of neoliberal transformation and energy liberalisation?’ Since the neoliberal variant of

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<sup>16</sup> Nigel Simister and Vera Scholz, *Process Tracing*, INTRAC, 2017, pg. 1.

liberalism is the current and influential variant of liberalism and is more appropriate for explaining the term 'electricity liberalisation', especially from a historical and chronological point of view, the chapter includes a detailed account of it. The chapter traces back the historical and ideological roots of neoliberalism to reflect the basic ideas behind the neoliberal transformation and incorporates the importance of global policy diffusion mechanisms into this framework. It later concludes by explaining what liberalisation means for the electricity sector. The first and partly the second steps of the chain reaction, what the global neoliberal turn is and its effects on finance and knowledge structures, will be dealt with in this chapter.

The third chapter constructs the theoretical framework within which the Turkish electricity liberalisation will be examined in the following chapters. The organising question of the chapter is 'how does the structural power concept relate to the energy structure?' The chapter will touch upon the power literature, and reveal different aspects of it briefly. The structural power concept will be examined in detail by particularly focusing on the energy structure. Why the current energy transition is accepted as a structural change will be justified here, by enriching the analysis with electricity liberalisation examples from a set of developed and developing countries: Chile, Britain, Germany, Japan, the United States, China, and Greece. Chile is the first country where the electricity liberalisation was tested for the first time. Britain is the first developed country where the electricity liberalisation was applied. Germany represents the continental Europe and the directives and policies of the European Union. Japan represents the electricity liberalisation policies at a different part of the world. The US is the core power of the global power structures, especially that of the dollar-based finance structure. China is significant since it is the country with highest electricity consumption. Lastly, Greece is a country with similar characteristics with Turkey, and its neighbour as well. By looking at these global examples, the Turkish case will be placed at a structural framework more easily. Having incorporated the drivers of change in the organising principle of electricity sector, the chapter will complete

examining the remaining parts of the second step, and analyse the entire third step of the chain reaction. The second and third chapters will constitute the theoretical backbone of the thesis.

The fourth chapter is about energy outlook of Turkey and consists of three parts. The organising question of the chapter is 'what is the current outlook of Turkey in energy, electricity, and in electricity liberalisation?' The first part is a concise overview of the Turkish energy sector. It gives basic factual data about reserves, production, consumption, export and import figures for coal, oil, and gas, in order to establish bridges which connect these subsectors of energy with electricity, and discusses some major issue realms. The second part is allocated solely for electricity. It gives an overview of the Turkish electricity market from a historical and statistical standpoint first, and then discusses the main sectoral topics in a brief manner. The third part deals with the evolution of the Turkish electricity market structure. It describes the pre-reform and reform periods by highlighting administrative changes as well, and prepares the ground for the core chapters of the study. Most significantly, why this thesis claims that there is stagnation in the liberalisation process will be given here, at the section about indicators of stagnation.

The fifth chapter is one of the two core chapters of the thesis, and covers the introduction period of the electricity liberalisation. The organising question of the chapter is 'how and why did global power structures influence Turkey's electricity sector policy towards liberalisation?' Thus, the chapter answers how and why electricity liberalisation, as a foreign-inspired policy, influenced Turkey's domestic energy policy preferences, and has two parts. The first part examines the effects of the external economic and political factors, while the second part examining internal economic and political factors. It utilises finance and knowledge structures and, as a complementary to them, international regime theory while analysing external economic and political factors,

respectively. This and the following chapter will handle the fourth step of the chain reaction.

The sixth chapter is the other core chapter, and deals with the stagnation period of the electricity liberalisation. The organising question is 'why did electricity liberalisation stagnate in Turkey, despite constant global power structures?' Thus, the chapter addresses why the liberalisation process decelerated, and even regressed, although it had reached a certain level of maturity, and consists of two parts. The former part examines the effects of the external economic and political factors, while the second part examining internal economic and political ones. It benefits from the finance and knowledge structures and combines them with non-hierarchical regime complexity concept, and from the public choice theory while analysing external and internal political factors, respectively.

The seventh chapter is for the main argument and concluding remarks; the liberalisation process is evaluated as a whole, and some comments are made. In this last chapter, implications are made about domestic energy policy preferences of Turkey, behavioural patterns of Turkish politicians for politicising electricity, and about the ways through which the changes in the global power structures influence domestic energy policy preferences of Turkey. Thus, a contribution will be made to studies about Turkish energy policy, global energy structure, political economy of energy, and neoliberal transformation in the global political economy.

## **CHAPTER 2**

### **LIBERALISATION AS A STRUCTURAL TRANSFORMATION**

This chapter will focus on neoliberalism, and as a function of it, liberalisation which is the main structural transformation in the electricity sector, by answering questions such as what neoliberal transformation means in general and what it corresponds to specifically in the electricity sector. The organising question of the chapter is “what are the attributes and policy diffusion mechanisms of neoliberal structuralisation?”. Answering this question will serve to identify drivers of change in the electricity sector later, by placing electricity liberalisation in a wider framework of neoliberal transformation. Since this thesis depends upon a premise assuming that the electricity liberalisation is a structural change, the broader theoretical aim of this chapter is to highlight the effects of changing global political economic practices on the global power structures in which the electricity restructurings take place at global and national levels. The practical aim is to open the way for exploring the political economic reflections of global neoliberal turn on the Turkish electricity sector.

Liberalisation, with its broadest meaning, depends upon the reduction of state intervention to 'the life' as much as possible. In other words, it means abolishment of regulations in any kind. 'The life' includes a variety of fields such as economy, culture, trade, religion, health, education, jurisdiction or security with its internal and external dimensions. The key liberal argument of Adam Smith, "invisible hand", is that the less state intervention to these fields brings higher economic efficiency and more generation of wealth not only domestically, but also in the global international economic system, as it is

famously defended by "comparative advantage" theory of David Ricardo.<sup>17</sup> The invisible hand argument is one of the components of the liberal theory only; Thorsen and Lie make a broader definition for liberalism. They perceive it as a political programme targeting constitutional democracy, limited government, individual liberty, and basic human rights.<sup>18</sup>

Despite the unanimity between all variants of liberalism on these elements included in the definition above, the convergence does not go beyond this point and the variants emerge from the differences about their assumptions in moral values and the appropriate state intervention to the life, and especially to the economy. The main identifiable types of liberalism, namely, classical liberalism, modern liberalism, libertarianism and neoliberalism, all have their distinct features from the others. Therefore, in literature, the taxonomy of variants of liberalism is highly problematic:

Anyone trying to give a brief account of liberalism is immediately faced with an embarrassing question: are we dealing with liberalism or liberalisms? It is easy to list famous liberals; it is harder to say what they have in common. John Locke, Adam Smith, Montesquieu ... are certainly liberals - but they do not agree about the boundaries of toleration, the legitimacy of the welfare state, and the virtues of democracy, to take three rather central political issues.<sup>19</sup>

Among the variants of liberalism, classical liberalism is the oldest and the most basic type and is especially well-known with its oft-cited motto "*Laissez faire, laissez passé*" and its prominent figure, 18<sup>th</sup> century Scottish economist Adam Smith. According to the classical liberalism, the invisible hand ensures the most efficient and effective allocation of resources among nations through the

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<sup>17</sup> David Ricardo, *The Principles of Political Economy and Taxation*, Kitchener, Batoche Books, 2001. The "invisible hand" concept was first used by Adam Smith in his *The Theory of Moral Sentiments* (1759).

<sup>18</sup> Dag Einar Thorsen and Amund Lie, *What is Neoliberalism?*, University of Oslo, Department of Political Science website, <http://folk.uio.no/daget/neoliberalism.pdf>, accessed on June 03, 2017.

<sup>19</sup> Alan Ryan, "Liberalism", Robert E. Goodin and Philip Pettit (eds.), *A Companion to Contemporary Political Philosophy*, Oxford, Blackwell Publishing, 1993, pg. 291.

peaceful commercial intercourses. Classical liberals' claim also includes that bad economic times frequently reflect some form of government intervention which distorts price signals and causes market failure.<sup>20</sup> This state model, sometimes called as 'night-watchman state' in the literature, requires state to be minimal with a sole purpose to uphold only fundamental and non-excludable aspects of public order such as law enforcement and security.

Modern liberalism, on the other hand, is open, if not eager, to the idea of letting the state intervene more to the economy. Modern liberalism, also known as 'liberal egalitarianism', has a tendency towards regulated marketplace and the provision of basic supplies and goods to everyone by the state, if necessary. "The name, liberal egalitarianism, indicates that liberal egalitarians would like to see equality as well as liberty brought about."<sup>21</sup> This is in fact a kind of legitimising redistribution of wealth and power, and situates modern liberalism politically to the left of classical liberalism, due to its willingness and concern about creating a more equitable society.<sup>22</sup> In this sense, there is a strong transitivity in the meanings of modern liberalism and of 'Keynesianism':

It was the Keynesian advocacy of an interventionist state and regulated markets that gave 'liberalism' its modern economic meaning: a doctrine favouring a large, active government, regulation of industry, high taxes for the rich, and extensive social welfare programmes for all.<sup>23</sup>

Contrary to the modern liberalism, libertarianism, strictly opposes to the ideas such as equality or solidarity, although it shares a strong emphasis on individual

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<sup>20</sup> Manfred B Steger and Ravi K. Roy, *Neoliberalism: A Very Short Introduction*, Oxford, Oxford University Press, 2010, pg. 3.

<sup>21</sup> Dag Einar Thorsen and Amund Lie, *What is Neoliberalism?*, University of Oslo, Department of Political Science website, <http://folk.uio.no/daget/neoliberalism.pdf>, accessed on June 03, 2017.

<sup>22</sup> John Rawls, *Political Liberalism*, New York, Columbia Press, 1993; William Beveridge, *Why am I a Liberal*, London, Jenkins Publishing, 1945.

<sup>23</sup> Steger and Roy, op. cit., pp. 8-9.



liberties with the other variants of liberalism.<sup>24</sup> Some forms of libertarianism radically defend even the abolition of state altogether. According to Thorsen and Lie, libertarianism is typified by a remorseless concern for liberty above everything else, especially economic or commercial liberty, coupled with a corresponding de-emphasis of other traditional liberal purposes and values such as democracy and social justice.<sup>25</sup> Neoliberalism will be examined in a detailed way in the respective part, later.

After a long period of dominance of classical liberal ideas in the world economy, the Great Depression in 1929 convinced many economists, politicians and intellectuals that some form of government control beyond the night-watchman model was necessary to avoid such crises in the future. John Maynard Keynes, in its *The General Theory of Employment, Interest, and Money* advocated demand side management through a set of tools including enormous government spending in crises to create jobs.<sup>26</sup> The motto "save in good times, spend in bad times" briefly encapsulates his ideas. Beyond demand side management, "Committed to the market principle but opposed to the 'free market', Keynesianism even called for some state ownership of crucial national enterprises like railroads and energy companies."<sup>27</sup> During the planned economy era, these Keynesian ideas urged countries to establish many state owned enterprises for different reasons. Some states preferred state owned enterprises for an extension of import substitution policies, some preferred for subsidising basic goods and services to population such as electricity, communication, and basic manufactures etc.

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<sup>24</sup> Ibid., pg. 17.

<sup>25</sup> Thorsen and Lie, op. cit.

<sup>26</sup> John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, Ware, Wordsworth Editions, 2017.

<sup>27</sup> Steger and Roy, op. cit., pg. 6.

However, Keynesian political economic doctrine started to face with serious challenges sourcing from the stagflation in the late 1960s and 1970s, when both inflation and unemployment needed to be addressed simultaneously. The early signs of a general problem in the political economic structure came with 1968 events; it was fuelled by the removal of fixed exchange rate system in 1971, and was further deteriorated due to the first oil crisis of 1973-74. In economic terms, the essence of the problem was the lack of sufficient private capital accumulation causing unemployment.<sup>28</sup> In political terms, the trouble was about how to restructure the obsolete Keynesian political economic system, while maintaining current welfare distribution and high rates of accumulation.<sup>29</sup>

In the face of this dilemma, the political left could not go beyond proposing traditional regulatory or social democratic corporatist solutions which were inconsistent with the question: how to increase capital accumulation.<sup>30</sup> Kalecki, in his famous analysis, argued that political basis of Keynesianism represented a specific balance of power between labour and capital by placing state under the responsibility of creating enough employment, contrary to the main tenets of capitalism.<sup>31</sup> However, the emergent difficulties were imposing a change in the ways of accumulation, and as an extension of it, a change in the political economic architecture of the systems of generation and distribution of wealth. According to Harvey, there was a political threat to the power of economic elites and they had to move quickly, if they were to protect themselves from political and economic annihilation.<sup>32</sup> Thus, the neoliberal theory has found the necessary political ground and rose to the level of practice.

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<sup>28</sup> Andrew Gamble, "Neo-Liberalism", *Capital and Class*, Vol. 25, No.1 (2001), pg. 131.

<sup>29</sup> Ibid., pg. 128.

<sup>30</sup> David Harvey, *A Brief History of Neoliberalism*, New York, Oxford University Press, 2007, pg. 12.

<sup>31</sup> Michael Kalecki, "Political Aspects of Full Employment", *The Political Quarterly*, Vol. 14 (1943), pp. 322- 331.

<sup>32</sup> Harvey, op. cit., pg. 15.

## 2.1: Neoliberal Transformation

What led to the rise of neoliberalism were troubles of the late-Keynesian era, basically. In the literature, there is almost a unity about the reasons which prepared the ground for neoliberalism which is chronologically the newest, and for the purpose of this study, the most important variant of liberalism. According to Duménil and Levy, the main problem of the late Keynesian era was a structural one springing from decreasing rates of profit, in other words, a slowdown in the return and accumulation of capital.<sup>33</sup> Thus, the only way of increasing profits appeared as controlling labour costs. This is basically why Harvey regards neoliberal transformation either as a utopian theoretical design for global capitalism or, as a political project to re-establish the circumstances for capital accumulation to restore the power of economic elites.<sup>34</sup> This approach of Harvey works in tandem with a famous quotation attributed to Cox: "Theory is always for someone and for some purpose."<sup>35</sup> Despite strong tendency in the literature towards seeing the global neoliberal turn from the same lenses as Harvey do, it is also noted that the historical roots and the causes of the rise of neoliberalism is highly complex and cannot be explained through reductionist analyses.

The origins of neoliberalism are much debated. There are four main alternatives about the roots of the term 'neoliberalism' and its corresponding ideas. The most widely accepted one is generally attributed to the ideas of Friedrich August von Hayek and to Mont Pelerin society, a group of like-minded intellectuals, scholars and entrepreneurs pioneered by Hayek in 1947, to discuss the alternatives to state-interventionist economic approaches of the time. Despite the fact that Hayek, with its *The Road to Serfdom*, and Milton

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<sup>33</sup> Gérard Duménil and Dominique Levy, *Capital Resurgent: Roots of the Neoliberal Revolution*, Harvard University Press, 2004, pp. 23-24.

<sup>34</sup> David Harvey, op. cit., pg. 19.

<sup>35</sup> Robert Cox, "Social Forces, States and World Orders: Beyond International Relations Theory", *Millennium: Journal of International Studies*, Vol. 10, No. 2 (1981), pp. 126-155.

Friedman, with his monetarist ideas, have been particularly influential on the neoliberal thought, the roots of neoliberalism goes to the earlier times. A second option traces the roots of neoliberalism back to 1930s when a group of liberal intellectuals met in the 1938's Paris to discuss the threats posed by totalitarianism, collective planning of the Keynesian state and the New Deal, and concluded that "the governments play an important role as the guardian of free markets by securing the rule of law."<sup>36</sup>

Third alternative narrative about the early usages of the term claims that it was coined by the Freiburg school, in the post-World War I Germany for the first time.<sup>37</sup> Finally, the last alternative argues that the term was first used by a French author, Charles Gide in an article published in 1898.<sup>38</sup> He used the term again in one of his later studies, in 1922.<sup>39</sup> Yet, the first usage of the term in a book title belongs to Jacques Cros' doctoral thesis in 1950.<sup>40</sup> In any case, what is certain is that the term is a western European one and belongs to the 20<sup>th</sup> century. Also, what is certainly astonishing is the ambiguity of the roots of a term which is almost the dominant economic paradigm of the time. According to Clarke, it is not possible to date the emergence of neoliberalism precisely, but its foundations go back to the age of Adam Smith.<sup>41</sup>

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<sup>36</sup> Kean Birch and Vlad Mykhnenko, "Introduction, A World Turned Right Way Up", Kean Birch and Vlad Mykhnenko (eds.), *The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?*, London, Zed Books, 2010, pp. 2-3.

<sup>37</sup> Manfred B Steger and Ravi K. Roy, op. cit., pg. ix.

<sup>38</sup> Charles Gide, "Has Co-operation Introduced a New Principle into Economics?", *The Economic Journal*, Vol. 8, 1898, pp. 490-511.

<sup>39</sup> Charles Gide, *Consumers' Co-operative Societies*, New York, Alfred A. Knopf, 1922.

<sup>40</sup> Jacques Cros, *Le "Néo-libéralisme" et la révision du libéralisme*, Toulouse, University of Toulouse, 1950.

<sup>41</sup> Simon Clarke, "The Neoliberal Theory of Society", Alfredo Saad-Filho and Deborah Johnston (eds.), *Neoliberalism - A Critical Reader*, London, Pluto Press, 2005, pg. 52.

Similar to the debates on the roots and the first coinage of the term, its meaning and definition is highly controversial also. The Freiburg School employed the term to imply a moderate market economy, with some egalitarian aspects; for this reason, the term was interchangeably used with 'ordoliberalism' (*ordo* means order in Latin), with a meaning more like a kind of 'social market liberalism'. It is against to the planned economy, pure laissez faire policies, and to the Keynesian instruments of demand management. Although both Hayekian neoliberalism and ordoliberalism reject deficit spending for demand management, the latter differs from the former in its support for a strong government as the regulator. This, perhaps, is best encapsulated by the title of an essay by Alexander Rüstow, a prominent German ordoliberal, "Free Market - Strong State".<sup>42</sup> According to Freiburg school, the state must be active for the free market to function and to keep the private interests in check.<sup>43</sup> Apparently, this mode of thought envisages a type of state much beyond the minimalist, night-watchman model. In this sense, the original meaning of neoliberalism was somewhere between Keynesian and Hayekian style liberalisms; yet, in time, it has slipped towards Hayek's line.

In this framework, determining the definition and content of neoliberalism becomes harder. After a review of literature, it can easily be seen that what makes neoliberalism 'neo' is not clear enough to define. There are indeed debates in the literature about this hardship and the lack of definition of neoliberalism.<sup>44</sup> Saad-Filho and Johnston even defended that it is impossible to define neoliberalism purely theoretically.<sup>45</sup> Another article offers a functional taxonomy for the reasons of the lack and ambiguity of definition of

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<sup>42</sup> For more explanation, see Carl J. Friedrich, "The Political Thought of Neo-Liberalism", *American Political Science Review*, Vol. 49, No. 2 (1955), pp. 509-525.

<sup>43</sup> Taylor C. Boas and Jordan Gans-Morse, "Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan", *Studies in Comparative International Development*, Vol. 44, No. 2 (2009), pg. 146.

<sup>44</sup> *Ibid.*, pp. 137-161.

<sup>45</sup> Alfredo Saad-Filho and Deborah Johnston, "Introduction", Alfredo Saad-Filho and Deborah Johnston (eds.), *Neoliberalism - A Critical Reader*, London, Pluto Press, 2005, pg. 1.

neoliberalism. Firstly, neoliberalism, as a term, is more used asymmetrically across ideological divides and by those who are critical of free markets but, only rarely by those who view marketisation positively: "... because neoliberalism has come to signify a radical form of market fundamentalism with which no one wants to be associated."<sup>46</sup> According to the authors, terminological contestation over how to label concepts urged scholars with divergent normative evaluations to adopt different terminology. "When the use of language expresses only one side of politically charged argument, choice of terminology takes the place of direct confrontation of ideas, and meaningful debate suffers."<sup>47</sup> Secondly, the term is effectively employed in many different ways, so that its appearance in any article gives little clue for the meaning of it.<sup>48</sup> According to Boas and Gans-Morse, scholars are keen on associating neoliberalism with a set of policies, a development model, and ideology or academic paradigm.<sup>49</sup> Another study, this time a clear advocate of neoliberalism, points to the same issues in a more integrative way: "The term neoliberal has been used derisively by the Left as a catch-all insult. It has served as a term of abuse to attack those who favour free markets, and free trade, and as such has lacked coherent content."<sup>50</sup>

However, despite ongoing ambiguity about its content, the term is not completely undefined or impossible to define. For example, from a lexicographic point of view, Oxford English Dictionary defines neoliberalism as "A modified form of liberalism tending to favour free-market capitalism".<sup>51</sup> Yet, this definition is problematic since it makes the definition depend upon the concept

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<sup>46</sup> Boas and Gans-Morse, op. cit., pg. 138.

<sup>47</sup> Ibid., pg. 139.

<sup>48</sup> Ibid., pg. 139.

<sup>49</sup> Ibid., pg. 140.

<sup>50</sup> Madsen Pirie, *The Neoliberal Mind: The ideology of the future*, The Adam Smith Institute, 2017, pg.1.

<sup>51</sup> Oxford Living Dictionaries, "neo-liberalism", <https://en.oxforddictionaries.com/definition/neo-liberalism>, accessed on August 20, 2017.

of liberalism which is defined as "The holding of liberal views".<sup>52</sup> Apparently, applying a lexicographic approach will not remove the ambiguity on the meaning. Perhaps due to this hardship, Steger and Roy divide neoliberalism into three manifestations as neoliberalism as an ideology, as a mode of governance and as a policy package.<sup>53</sup> According to them, the codifiers of the ideology are global elites; among them are executives of global corporations, lobbyists, some celebrities and intellectuals alongside some bureaucrats and politicians. These individuals flooded public discourse with idealised images of consumerism and of free-market world. Unlike Marxism, neoliberalism, as an ideology, does not place production and exchange of goods at its focal.

Neoliberalism as a mode of governance "adopts the self-regulating free market as *the* model for proper government."<sup>54</sup> Thus, traditional bureaucratic mentalities are transformed into entrepreneurial identities where bureaucrats no longer see themselves as guardians of public good, but as self-interested professionals responsible to the market, where 'citizens' became 'clients'.<sup>55</sup> Lastly, neoliberalism as a policy package is more like a natural outcome of the first two. Steger and Roy encapsulates the neoliberal policy package as "D-L-P formula": Deregulation (of the economy), liberalisation (of trade and industry), and privatisation (of state-owned enterprises).<sup>56</sup> This formula reflects the practical aspects of neoliberalism well about which there is more or less a convergence in the literature. In other words, neoliberalism is much easier to define through its effects, rather than its origins and content. The requirements of the D-L-P formula have globally spread with the effect of 'Washington Consensus' and the structural adjustment programmes later.

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<sup>52</sup> Oxford Living Dictionaries, "liberalism", <https://en.oxforddictionaries.com/definition/liberalism>, accessed on August 20, 2017.

<sup>53</sup> Steger and Roy, op. cit., pg. 11.

<sup>54</sup> Ibid., pg. 12.

<sup>55</sup> Ibid., pg. 13.

<sup>56</sup> Ibid., pg. 14.

Similar to this taxonomy, Taylor and Jordan have another one depending upon the types of neoliberalism studied in the political economy literature. The term is used to denote a set of economic reform policies, a development model, a normative ideology, and an academic paradigm.<sup>57</sup> Among them, using the term to refer to economic reform policies is the most common. The study also identifies three sets of policies as neoliberal: Those that liberalise economy by eliminating price controls, deregulating capital, and lowering trade barriers; those that reduce the role of the state in the economy, most notably via privatisation of state-owned enterprises; and those that contribute to fiscal austerity and macroeconomic stabilisation, tight control of money supply, elimination of budget deficits, and curtailment of government subsidies.<sup>58</sup> The electricity market liberalisation models mostly fit to the second type, but also partially to the third type, as it will be shown later. Another taxonomy identifies three varieties of neoliberalism as a normative ideological class project, as a neo-imperial project, and as a market fundamentalist ideology.<sup>59</sup> Thus, it is completely safe to claim that neoliberalism is perceived in many different types and has not a uniform appearance.

Harvey makes a more scientific definition which is more appropriate and more 'user-friendly' for social sciences to use. He claims that neoliberalism is a theory of political economic practices, in which the role of state is limited to creation and preservation of conditions for such practices.<sup>60</sup> Unfortunately, despite this definition's regard of neoliberalism as a "theory of political economic practices", it too does not give a proper account of elements which constitute neoliberalism. More explicitly, although Harvey defines neoliberalism close to

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<sup>57</sup> Boas and Gans-Morse, op. cit., pg. 143.

<sup>58</sup> Ibid., pg. 143.

<sup>59</sup> Adam Swain, Vlad Mykhnenko and Shaun French, "The Corruption Industry and Transition: Neoliberalizing Post-Soviet Space?", Kean Birch and Vlad Mykhnenko (eds.), *The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?*, London, Zed Books, 2010, pg. 114.

<sup>60</sup> Harvey, op. cit., pg. 2.



night-watchman state model, he, too, does not define what makes neoliberalism 'neo'.

Answering the question of what is 'neo' in neoliberalism first needs to acknowledge that it is the revival, and reincarnated form of liberalism; in other words, this means that liberalism has undergone a period of initial growth, an intermediary decline during which it has been absent from policy-making, and a recent rejuvenation.<sup>61</sup> From this point of view, it can be said that neoliberalism brings an improved level of competition and further decreased level of state intervention. In this direction, Ostry, Loungani and Furceri, in a publication of the International Monetary Fund (IMF) argue that neoliberalism depends upon two pillars; the first is increased competition, and the second is smaller role for the state.<sup>62</sup> As it will be shown later, both of these pillars have found significant areas of implementation in the field of electricity. While Boas and Gans-Morse perceive neoliberalism as a radical form of market fundamentalism with which no one wants to be associated,<sup>63</sup> Apeldoorn and Overbeek describe it as a mix of liberal pro-market and supply side discourses (*laissez faire*, privatisation, liberalisation, deregulation, competitiveness) and of monetarist orthodoxy (price stability, balanced budgets, austerity).<sup>64</sup>

In a way to complete these descriptions of neoliberalism, Brown makes clear what makes neoliberalism 'neo' is that it depicts free markets, free trade, and entrepreneurial rationality as achieved and normative, as promulgated through law and through social and economic policy and that neoliberalism casts the political and social spheres both as appropriately dominated by market

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<sup>61</sup> Thorsen and Lie, op. cit.

<sup>62</sup> Jonathan D. Ostry, Prakash Loungani and Davide Furceri, "Neoliberalism: Oversold?", *Finance and Development*, Vol. 53 (June 2016), pg. 38.

<sup>63</sup> Boas and Gans-Morse, op. cit., pg. 138.

<sup>64</sup> Henk Overbeek and Bastiaan van Apeldoorn, *Neoliberalism in Crisis*, Basingstoke, Palgrave, 2012, pg. 5.

concerns and as themselves organised by market rationality.<sup>65</sup> Harvey explains what 'neo' is in neoliberal practice by examining the negative socio-economic outcomes of debt restructuring programmes:

... a key difference between liberal and neoliberal practice: under the former, lenders take the losses that arise from bad investment decisions, while under the latter the borrowers are forced by state and international powers to take on board the cost of debt repayment no matter what the consequences for the livelihood and well-being of local population.<sup>66</sup>

He argues that institutional reforms, such as less welfare expenditures, flexible labour markets and privatisations, enforced upon indebted countries like Mexico, gave birth to the rise of structural adjustment programmes. In other words, *what is 'neo' in neoliberalism is its focus on how to create a 'neoliberal state' in order to guarantee the flow of money from the investments made; at the national level from investments which are 'too big to bankrupt', and at the global level, those from the international ones.*

## **2.2: Essence of Neoliberalism**

At this point, main tenets of neoliberalism need to be assessed in more detail. In order to understand the neoliberal transformation in the energy sector which has replaced the Keynesian mode of economic affairs, the main features of which need to be identified and explained. As the topic approaches to more concrete aspects of neoliberalism, the relevant literature too becomes wider and detailed which proves that, despite its theoretical aspects, neoliberalism is more a set of political economic practices, rather than an abstract cloud of ideas. First of all, neoliberals claim that the neoliberal approach mirrors the scientific method, and there is no final explanation or no final set of principles constituting it. Thus, it is a process rather than the description of a status quo.<sup>67</sup>

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<sup>65</sup> Wendy Brown, "American Nightmare: Neoliberalism, Neoconservatism, and De-Democratization", *Political Theory*, Vol. 34, No. 6 (2006), pg. 694.

<sup>66</sup> Harvey, op. cit., pg. 29.

<sup>67</sup> Pirie, op. cit., pg. 8.

On the other hand, the same author, in a self-contradicting way, admits that human behaviours are generally unpredictable:

They (neoliberals) observe that when governments and their advisors try to manipulate and direct the economy on the basis of how the formulae tell those people will behave, the results often are unexpected because people do not behave in those predictable ways. The results are often as unpleasant as they are unexpected.<sup>68</sup>

This view is self-contradicting, because scientific knowledge requires a high degree of predictability; but as the author admits, human behaviours are usually unpredictable.

Then, what makes neoliberalism scientific? From a Popperian point of view, the main feature of the scientific knowledge is that it should be falsifiable and repeatable.<sup>69</sup> Nevertheless, Pirie unconsciously admits that it is not repeatable, and Rodrik shows that it is not falsifiable:

... there is something unfalsifiable in this advice (neoliberal advices). So open-ended the agenda is that even the most ambitious institutional reform efforts can be faulted ex post for having left something out. ... In the end, it is always the advisee who falls short and never the advisor who is proved wrong.<sup>70</sup>

Once a field of knowledge is accepted scientific, then follows methodological debates. In terms of methodological assumptions of neoliberalism, Pirie claims that where neoliberalism diverges from socialism is methodology; the latter targets having the wealth redistributed, while the former targets creating it.<sup>71</sup> On the other hand, it is worth to note that an IMF publication urges policy-makers to be more open to redistributive ideas with strong evidences showing inequality can lower both the level and durability of growth.<sup>72</sup>

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<sup>68</sup> Ibid., pg. 41.

<sup>69</sup> Karl Popper, *The Logic of Scientific Discovery*, New York, Routledge, 2002.

<sup>70</sup> Rodrik, "Goodbye Washington Consensus, ...", pp. 980-984.

<sup>71</sup> Pirie, op. cit., pg. 33.

<sup>72</sup> Ostry, Loungani and Furceri, op. cit., pg. 39.

If neoliberalism is accepted as a scientific field of knowledge, as an extension of this assumption, it becomes easier to suggest that the neoliberal rules are “... set out as things that must be true because of the nature of the universe or because the human nature is the way it is. Sometimes they can be set forward as principles that every decent person must accept”.<sup>73</sup> Therefore, if you are a decent person, you must accept neoliberalism! Another ‘natural law’ is about the separation of politics and economy. As it is true for all liberalisms, neoliberalism, too, depends upon the belief that economics and politics can be separable and the former has the superior status, because it operates best without government intervention. The former has its own ‘natural’ laws, so states should just guarantee free economic exchange.<sup>74</sup> Nevertheless, neoliberalism is not monolithic and has variants in national practices, such as Reaganomics, Thatcherism, Third Way, or some other national applications, according to Steger and Roy.<sup>75</sup> Madsen Pirie, the president of the Adam Smith Institute, a neoliberal British think tank, accepts that there is not a mainstream form of neoliberalism, and there is a large room for disagreement.<sup>76</sup>

Indeed, all neoliberal applications have also some commonalities, inspired by an ideological position, called as the Washington Consensus. The term, Washington Consensus, was coined by John Williamson, in his *Latin American Adjustment: How Much Has Happened?* in 1990.<sup>77</sup> The consensus originally included ten reform advises for developing countries: Fiscal discipline, reordering public expenditure priorities, tax reform, liberalising interest rates, a competitive exchange rate, trade liberalisation, liberalisation of inward foreign direct

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<sup>73</sup> Pirie, op. cit., pg. 5.

<sup>74</sup> Steger and Roy, op. cit., pg. 3.

<sup>75</sup> Ibid., pg. 2.

<sup>76</sup> Pirie, op. cit., pg. 3.

<sup>77</sup> John Williamson, *Latin American Adjustment: How Much Has Happened?*, Washington, Institute for International Economics, 1990; John Williamson, *The Washington Consensus as Policy Prescription for Development*, Peterson Institute for International Economics.

investment, privatisation, deregulation, property rights.<sup>78</sup> In terms of its economic framework, neoliberalism is enriched by some other theories of economics such as Friedman's monetarism, Lucas's rational expectations theory, and Buchanan and Tullocks's public choice theory. In a coherent way, Harvey argues that all foundation of neoliberalism serves, in fact, increasing accumulation and regards commodification of everything and privatisation of public assets as a signal of neoliberal project to create new fields for capital accumulation.<sup>79</sup>

In general, neoliberalism offers a simple guiding criterion for policy making. According to Gamble, this is recreation of widest space for markets, including removing restrictions and reducing taxes.<sup>80</sup> Nonetheless, huge bailout packages which were created after mortgage crisis represented a contradiction with the neoliberal economic order. According to a study, all neoliberal efforts towards privatisation, marketisation and liberalisation have produced a monetary value €1.3 trillion in 30 years, only twice of bank bail-outs in the US and Europe.<sup>81</sup>

The neoliberal theory claims that if market does not exist, it should be created with the hand of the state, but it should not intervene afterwards, because the process of policy-making can be open to the effects of interest groups and this may distort price signals. Harvey describes the neoliberal state as one whose fundamental mission is to facilitate the suitable conditions for profitable capital accumulation; this was first tried in Chile, with the Pinochet coup, and then was

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<sup>78</sup> John Williamson, *A Short History of the Washington Consensus*, Peterson Institute for International Economics.

<sup>79</sup> Harvey, op. cit., pp. 159-160.

<sup>80</sup> Gamble, op. cit., pg. 132.

<sup>81</sup> David Hall, *Economic Crisis and Public Services*, University of Greenwich, 2008, pg. 6; quoted in Kean Birch and Vlad Mykhnenko (eds.), *The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?*, London, Zed Books, 2010.

applied to the other countries.<sup>82</sup> He thus put forwards that the main task of the neoliberal state is seeking out reorganisations and new institutions in order to become globally more competitive.<sup>83</sup> In this sense, pulling the energy prices down through reformations can be regarded coherent with the duties of neoliberal state. Despite the bulk of the literature repeats the dominant narrative about higher growth with neoliberal reform packages, some pieces have started to question this. For example, while Pirie highlighting neoliberal record on development and growth as a visible success, Harvey calculates that growth rates decrease meaningfully in the neoliberal era.<sup>84</sup> Ostry and Loungani, after a cost-benefit analysis, express doubts about the economic success of neoliberalism and shows that 20% of approximately 150 neoliberal growth waves have ended with crisis, since 1980s.<sup>85</sup> As it is clearly seen, the success of neoliberalism is highly debated.

Apart from its economic content, the most important aspect of neoliberalism is that it is *not necessarily* a politically democratic ideology. The main reason for this appearance is the silence of neoliberal theory on the issues of democracy and the other related political issues such as freedom of thought. Harvey's perception of neoliberalism, a theory of political economic practices, seems even more meaningful in this sense because, as he shows, economic prescriptions of neoliberalism can be implemented under the auspices of autocrats.<sup>86</sup> Thorsen and Lie agree with this and emphasise the insistence of neoliberalism only on economic freedoms. They express that neoliberals see the only legitimate

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<sup>82</sup> Harvey, op. cit., pp. 7-9.

<sup>83</sup> Ibid., pg. 65.

<sup>84</sup> Pirie, op. cit., pp. 154-155.

<sup>85</sup> Ostry, Loungani and Furceri, op. cit., pg. 39.

<sup>86</sup> Harvey, op. cit.

purpose of the state as safeguarding liberty, both individual and especially commercial.<sup>87</sup>

This is particularly evident in the historical examples attached to neoliberalism. For example, the very first application of the theory was only possible after a military coup in Chile. The neoliberal reform programmes are not very good at attracting electoral support in normal democratic procedures. At the roots of this situation lies the unpopular characteristic of neoliberalism specifically targeting abolishment of redistributive transfers of wealth which causes anger and reactions against neoliberal practices. The neoliberal antipathy towards redistributive policies is so extreme that the neoliberal practices are even regarded a kind of "social darwinism".<sup>88</sup> Therefore, candidates or parties having neoliberal reform programmes still need to add some blend of extra values to their agenda in order to widen their electoral base. Mostly due to this reason, neoliberalism is not good at winning elections, against political parties promising some welfare provision to the public.

The most common, and perhaps suitable, ally for neoliberalism seems to be neo-conservatism, in the literature. The main field of convergence between the two is their emphasis on order. The neo-conservatism highlights traditional values such as family, solidarity, national culture, religious values etc and insists on social order. Neoliberalism, despite its de-emphasis on the other values of neo-conservatism, finds a common place at social order. According to Gamble, neoliberal parties could only find necessary leverage for electoral support in order:

Democracy tended to be social democracy because mass electorates voted for parties which would deliver collective social provision. In the era of

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<sup>87</sup> Thorsen and Lie, op. cit.

<sup>88</sup> Candace Smith, "A Brief Examination of Neoliberalism and Its Consequences in Sociology", *Sociology Lens*, <http://www.sociologylens.net/topics/political-economic-sociology/neoliberalism-consequences/10869>, accessed on July 6, 2017.

mass democracies political parties ... have always had to find programmes which could mobilise support, and often found it not in neo-liberal policies but in collectivist policies which promised security and protection.<sup>89</sup>

Neoliberal scepticism towards democracy sources from possible threats posed by mass movements. Since neoliberalism defends separation of economy from politics by prioritising the former, it sees all political interventions to the technicality of economy as inconvenient in terms of efficient allocation of scarce resources in the process of wealth creation. The problem of political intervention to the 'natural laws' of economy finds its solution in the neoliberal theory with more employment of technocrats in the economic decision-making processes. Strict technical regulations in the processes limit available options open to the politicians, and a complex, technical narrative keeps economy detached from the level of public debates. Thus emerges the 'regulatory essence' of neoliberalism.<sup>90</sup> The regulatory essence in the neoliberal theory requires the state to establish independent authorities to monitor and regulate different fields of economy in accordance with the neoliberal paradigm. Here, the 'independence' requires no intervention from the governments with the purpose of gaining advantage in the domestic politics by distorting the economic rationality. Independence is also a guarantee for insulating key economic institutions such as the central bank, competition authority, or sectoral regulatory authorities, from political volatilities created by the democratic procedures. For these reasons, neoliberalism assigns an utmost priority to the institutions; in this sense, neoliberalism can be regarded an "institution fundamentalist" approach, as Rodrik does.<sup>91</sup>

As a result of this, parallel to the spread of neoliberal policies, it has become a common feature of countries to have regulatory authorities in a number of

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<sup>89</sup> Gamble, op. cit., pg. 132.

<sup>90</sup> Harvey, op. cit., pp. 66-67.

<sup>91</sup> Rodrik, "Goodbye Washington Consensus ...", pg. 980.



sectors such as transportation, finance, competition or energy. Yet, another intra-theory contradiction thus appeared. The theory, in one hand strictly defends a model of minimal state, but on the other hand, it creates a new and massive layer of regulatory bureaucracy. In other words, the prescription it defends brings less state intervention at a cost of more state intervention. This is why it is not wrong to claim that neoliberalism, in fact, has not brought less state intervention, but only brought a new type of it; Birch and Mykhnenko, too, defend a similar view.<sup>92</sup>

Tickell and Peck summarise the restructuring of the state for the sake of market efficiency as: "... the mobilization of state power in the contradictory extension and reproduction of market (-like) rule".<sup>93</sup> O'Neill claims that the neoliberal policies cannot be implemented without government intervention and thus, the less state is illusory, because neoliberalism compels rather than reduces state intervention.<sup>94</sup> With the rise of regulatory practices, the state-led central planning dramatically evaporated and was replaced by 'chaos'. However, neoliberals argue that this is a "false dichotomy", since the choice is not between rational planning and chaos, but between central planning and one which takes place at the periphery.<sup>95</sup>

In other words, neoliberal type of planning, if it is planning at all, prefers using many distributed microprocessors instead of one central supercomputer. This difference is about the focal of the planning. Pirie says that, "The planned system, when it works, satisfies the needs and priorities of the planners, but the

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<sup>92</sup> Birch and Mykhnenko, "Introduction", pg. 5.

<sup>93</sup> Adam Tickell and Jamie Peck, "Making Global Rules: Globalization or Neoliberalization", Jamie Peck and Henry Yeung (eds.), *Remaking the Global Economy: Economic-Geographical Perspectives*, London, Sage, 2003, pg. 166.

<sup>94</sup> Philip O'Neill, "Bringing the Qualitative State Back into Economic Geography", Trevor Barnes et al. (eds.), *Reading Economic Geography*, Oxford, Blackwell Publishing, 2003, pg. 259.

<sup>95</sup> Pirie, op. cit., pg. 18.

market system, by contrast, allows the needs and priorities of the general citizenry to be satisfied instead".<sup>96</sup> Nevertheless, another basic problem comes out at this point: Who decides the priorities of the general citizenry and represents it? This is to say, who will decide the transformation from a Keynesian, embedded liberal model to a neoliberal model? Or, which group will serve as initiator of agenda change, which institution will trigger the conversion by applying the neoliberal advises? If economics, by its definition, is about allocation of scarce resources between unlimited desires, this allocation process intrinsically includes a decision making, and all decisions are political naturally.

At this point, Thorsen and Lie make an insightful comment on the nature of neoliberal practices when they suggest that implementation of neoliberalism will relocate power from political to economic processes, from the state to markets, and from the legislature and executives to judiciary.<sup>97</sup> This means, from another aspect, depoliticisation of economy by leaving it to technocrats, and prioritising judiciary as 'the last land of resort'. In this sense, the main argument of Susan Strange's famous book *The Retreat of the State*, which puts forward that states were losing ground to markets and international non-state economic actors, becomes an even more theoretically explanatory framework.<sup>98</sup> For this reason, the success and effectiveness of a neoliberal transformation process can be measured by comparing the reciprocal positions of three areas of power: Legislature, executive, and judiciary. If executive and legislature are losing ground to judiciary, this is a sign of de-politicisation of the economy, and so, the liberalisation process can be regarded as successful and advancing, but if executive is gaining ground, liberalisation is regressing. This measure can be used while judging whether the liberalisation in an economic sector advancing or regressing.

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<sup>96</sup> Ibid., pg. 21.

<sup>97</sup> Thorsen and Lie, op. cit.

<sup>98</sup> Susan Strange, *The Retreat of the State: The Diffusion of power in the World Economy*, Cambridge, Cambridge University Press, 1996.

### 2.3: Neoliberalism and Policy Diffusion

The approval of much debated neoliberal advises has not been spontaneous; on the contrary, the spread of neoliberal applications required deliberate efforts. As Drezner showed, since globalism has not led to the economic policy convergence, purposeful efforts were necessary such as elite recruitment and international policy enforcement through loan mechanisms.<sup>99</sup> The former is particularly famous with 'Chicago boys' example. Hundreds of Chilean economics students were trained in the University of Chicago and Santiago's Catholic University, according to the free market principles, during 1950s and 60s. Later, these Chicago boys acquired positions in the Latin American countries, such as Argentina, Uruguay, Brazil and especially Chile. Following Pinochet's coup backed by the Central Intelligence Agency on September 11, 1973, these Chicago boys prepared a neoliberal economic policy document for the country, calling for immediate deregulation and privatisation measures as well as deep cuts to social spending, the reduction of tariffs, and the lifting of price controls.<sup>100</sup> The economic applications of these Chicago boys are regarded as the first trial of neoliberal policies. Some authors even go as far as regarding Chile as the "laboratory" of neoliberalism.<sup>101</sup> Indeed, after a content analysis on the articles studying neoliberalism, some researchers found that the meaning of and corresponding values attributed to the term 'neoliberal' changed dramatically, following the coup in Chile, due to exploitation of the term by the Latin American economists to refer to the radical economic reforms undertaken during the Pinochet's term.<sup>102</sup> The authors call this situation as "terminological shift" and argue that shift from a positive term to a negative term resulted the

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<sup>99</sup> Daniel Drezner, "Globalization and Policy Convergence", *International Studies Review*, Vol. 3, No. 1 (2001), pp. 56-58

<sup>100</sup> Steger and Roy, op. cit., pg. 100.

<sup>101</sup> Alex E. Fernandez Jilberto, "Chile: The Laboratory Experiment of International Neo-Liberalism", Henk Overbeek (ed.), *Restructuring Hegemony in the Global Political Economy: The rise of transnational neo-liberalism in the 1980s*, London, Routledge, 1993, pp. 58-78.

<sup>102</sup> Boas and Gans-Morse, op. cit., pg. 139.

term's association with the reforms of Pinochet in the 1970, it was a watershed in usage of the term neoliberalism.<sup>103</sup>

Apparently, elite recruitment can sometimes be counterproductive in abstract and intellectual terms, if not concretely. It may bring a strong popular reaction which may cause re-regulation of capital or protectionism at some point in the future.<sup>104</sup> In countries where the neoliberal reforms needed to be applied via democratic means, a prior construction of consent was required. For the construction of consent, capture of some media power and conversion of some intellectuals to neoliberal camp were necessary and these later opened the way for capturing some political parties, and ultimately the state power.<sup>105</sup> However, neoliberals perceive this approach cynically:

They (anti-neoliberals) see their enemies as a small group of rich and powerful people who control the world and organise it to serve their purposes. They seem to include investment bankers, hedge fund managers, top company directors, media bosses, and unscrupulous right-wing politicians who pass laws that benefit their rich friends.<sup>106</sup>

The second way, policy enforcement through loan mechanisms, was particularly applied when countries were hit by economic crises. The two major institutions of the global economic system, namely the IMF and the World Bank, played the main role in this type of global policy diffusion. Starting from the 1980s and improving during 1990s, these two institutions had been the lender of last resort for the countries which were in need of financial resources not only for short term balance of payments but also for long term physical investments. Nevertheless, when countries knocked the door, both of them put forward a lending framework principle: conditionality. Conditionality depends upon the

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<sup>103</sup> Ibid., pg. 150.

<sup>104</sup> Andrew Gamble and Anthony Payne, *Regionalism and World Order*, New York, St. Martin's Press, 1996, pg. 254.

<sup>105</sup> Harvey, op. cit., pg. 40.

<sup>106</sup> Pirie, op. cit., pg. 2.

idea of urging the countries to reform their economic systems in accordance with the neoliberal understanding and thus improving their abilities to repay their debts. The applications advised under the banner of conditionality include more or less the similar parallel advices from the standard neoliberal prescription which is best encapsulated in the Washington Consensus.

These reforms were enforced through what is called as the structural adjustment programmes. The structural adjustment programmes were indeed invented during 1980s debt rescheduling when countries required institutional reforms, such as cuts in welfare expenditures, privatisation etc.<sup>107</sup> Thus, a typical structural adjustment programme includes a considerable level of reduction in welfare expenditures, a massive program of privatisation of public assets, opening of the financial sector to international flows and creation of independent authorities to regulate some crucial sectors such as energy or finance. According to Rodrik, "Stabilize, privatize and liberalize became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counselled."<sup>108</sup> However, in different contexts, common problems need to be tackled in different ways and this is what the standard neoliberal prescriptions ignore. *Economic Growth in the 1990s: Learning from a Decade of Reform* report of the World Bank recognises this over standardisation and argues that there has been a tendency to exaggerate the advantages of standard rules over discretion in government behaviour.<sup>109</sup>

Still, despite its exogenous character, the IMF and the World Bank restructuring programmes seem unable to advance without a certain degree of internal

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<sup>107</sup> Harvey, op. cit., pg. 29.

<sup>108</sup> Rodrik, "Goodbye Washington Consensus ...", pg. 973.

<sup>109</sup> World Bank, *Economic Growth in the 1990s: Learning A Decade of Reform*, Washington D.C., World Bank, 2005, pg. 14.

support. In the neoliberal transformation process in Turkey, this has been evident too. According to Harvey, sometimes it seems that the IMF takes the responsibility for doing what some internal class forces want to do anyway.<sup>110</sup> That is to say, the IMF or other international organisations are sometimes used as an anchor, or scapegoat by the internal groups which support neoliberal policies. Thus, the reform agenda eventually started to be perceived as an ideological effort to impose neoliberal prescriptions and market fundamentalism on developing nations.<sup>111</sup> Similar to this, as Stiglitz reports, accepters of the structural adjustment programmes have some conspiratorial thoughts about the roots and consequences:

The IMF first told countries in Asia to open up their markets to hot short-term capital. The countries did it and money flooded in, but just as suddenly flowed out. The IMF then said the interest rates should be raised and there should be fiscal contraction, and a deep recession was induced. Asset prices plummeted, the IMF urged affected countries to sell their assets even at bargain basement prices. ... The sales were handled by the same financial institutions that had pulled out their capital, precipitating the crisis. These banks then got large commissions from their work selling the troubled companies or splitting them up, just as they had got large commissions when they had originally guided the money into the countries in the first place.<sup>112</sup>

Stiglitz himself too argues that the IMF reflects the interests and ideology of the Western financial community.<sup>113</sup> The principle of conditionality which is the core of the structural adjustment programmes has two main types as 'ex ante' and 'ex post'. In the former type, reform follows money, while in the latter, money follows reform.<sup>114</sup> Defending this distinction, the World Bank's *Assessing*

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<sup>110</sup> Harvey, op. cit., pg. 117.

<sup>111</sup> Rodrik, op. cit., pg. 974.

<sup>112</sup> Joseph Stiglitz, *Globalization and Its Discontents*, New York, Norton, 2002, pp. 129-130.

<sup>113</sup> Ibid., pp. 129-130.

<sup>114</sup> Elisa Van Waeyenberge, "Tightening the Web: the World Bank and Enforced Policy Reform", Kean Birch and Vlad Mykhnenko (eds.), *The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?*, London, Zed Books, 2010, pg. 106.

*Aid* report concludes that focus should be on ideas, not on money.<sup>115</sup> Thus, aids have a dual role: Money for those with good policy environment, and advice for those with bad policy environment.<sup>116</sup> For this reason, the World Bank is also called with the alternative names such as "knowledge bank" or "memory bank".<sup>117</sup> This naming is important because the World Bank regards the creation and dissemination of knowledge is an underprovided international public good. Yet, the debate is on how it perceives the knowledge: "For the Bank, 'knowledge' about development appears as a 'scientific' matter, objective and value-neutral. The socio-historical, political and economic context in which knowledge comes about and is put to use is blatantly disregarded".<sup>118</sup>

When countries apply for a loan, they are requested a reform programme and this programme is briefly expressed at a 'Letter of Intent' presented to the IMF, and only after that the creditor institution releases the credit. Letters of intent are "prepared by the respective countries for the purpose of setting forth policy intentions in respect of use of Fund resources or staff-monitored programmes."<sup>119</sup> Therefore, these letters of intent are important indicators of structural power of the international financial institutions on countries. However, reform programmes are not always as efficient as they have been planned. For example, a report by the United Nations Conference on Trade and Development (UNCTAD), *The Global Economic Crisis: Systemic Failures and Multilateral Remedies*, has four fundamental findings: 1) market fundamentalism has failed against real world application; 2) blind faith in the

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<sup>115</sup> World Bank, *Assessing Aid: What Works, What Doesn't and Why*, Oxford University Press, New York, 1998, pg. 4.

<sup>116</sup> Waeyenberge, *ibid.*, pg. 96.

<sup>117</sup> James Wolhensohn, *People and Development*, Annual Meeting Address, World Bank, Washington DC., 1996.

<sup>118</sup> Lyla Mehta, "From Darkness to Light? Critical Reflections on the World Development Report 1998/99", *Journal of Development Studies*, Vol. 36, No. 1 (1999), pp. 151-161.

<sup>119</sup> IMF, *Country's Policy Intentions Documents*, [http://www.imf.org/external/np/loi/mempub\\_new.asp](http://www.imf.org/external/np/loi/mempub_new.asp), accessed on July 10, 2017.

efficiency of deregulated financial markets created an illusion; 3) the role of financial derivatives increased volatility and speculative commodity bubbles; 4) absence of global cooperation caused global speculations and imbalances. The remedies suggested by the report to solve these problems can be grouped under three points: 1) re-regulation of finance is necessary; 2) government-private sector cooperation is better for growth; 3) developing countries should no longer be subjected to neoliberal logic against crises.<sup>120</sup>

These types of policy diffusion mechanisms, generally speaking, have an exogenous and top-down character. In addition to exogenous and top-down forces of neoliberal turn, there are other forces for neoliberal turn, says Harvey. According to him, apart from the need to respond an economic crisis, the other two forces are concentration on neoliberal ideology, like in the United States of America (USA) and the United Kingdom (UK), and pragmatic approach to reform state apparatus, like in France, China or the Nordic countries.<sup>121</sup> The second reminds Susan Strange's argument that the rival states compete on drawing more investments from the global financial structure, and on more world market shares at the detriment of the others, most of the time.<sup>122</sup> From this perspective, it can be said that the neoliberal transformation enabled countries to attract more foreign capital to economy to sustain a certain connectedness with the general course of global economy; and, that the neoliberal transformation in specific sectors, brings more foreign investments to these sectors, in comparison to the others. Therefore, every single sectoral process of liberalisation requires unique analyses focusing its own characteristics.

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<sup>120</sup> UNCTAD, *The Global Economic Crisis: Systemic Failures and Multilateral Remedies*, [http://unctad.org/en/docs/gds20091\\_en.pdf](http://unctad.org/en/docs/gds20091_en.pdf), accessed on July 11, 2017.

<sup>121</sup> Harvey, op. cit., pg. 115.

<sup>122</sup> Strange, op. cit. pg. 9.



Despite its prophecy on higher economic growth, neoliberal mode of political economy has not brought the promised results and the growth has left below the expectations, the belief in the Washington Consensus has eroded, and a new debate about the post-Washington Consensus world has emerged consequently.<sup>123</sup> At this critical juncture, it has become even more vital to question whether the world has reached to the 'peak neoliberalism'. Flew argues that in order to assess if the world has reached the peak neoliberalism, one first needs to clarify the distinctive elements of a neoliberal institutional and policy programmes in national capitalisms, thus a clearer picture will emerge as to whether neoliberalism continues to have significance.<sup>124</sup> From these debates on peak neoliberalism, new conceptualisations have sprung such as "postneoliberalism", "zombie neoliberalism", and "neoliberalism 3.0".<sup>125</sup> Particularly after 2008 mortgage crisis, these debates increased so dramatically that even the American president called for a watchful eye on the markets.<sup>126</sup>

The peak neoliberalism debates are important in two senses. Firstly, if the world has reached the peak neoliberalism, it means that the neoliberal theory of political economy is destined to library shelves, alongside the other once triumphant theories, such as Keynesianism. In other words, if the world has exceeded the peak level of neoliberalism, this means that, neoliberalism will gradually withdraw from its ecologically dominant position in theoretical sense every day. Secondly, in practical sense, it is important because after peak neoliberalism, the world will increasingly undo the neoliberal reforms and

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<sup>123</sup> Rodrik, "Goodbye Washington Consensus ...", pp. 975-976.

<sup>124</sup> Terry Flew, "Six theories of neoliberalism", *Thesis Eleven*, Vol. 122, No. 1 (2014), pg. 67.

<sup>125</sup> Jamie Peck, Nik Theodore and Neil Brenner, "Postneoliberalism and its Malcontents", *Antipode*, Vol. 41, No. 1 (2010), pp. 94-116; Jamie Peck, "Zombie neoliberalism and the ambidextrous state", *Theoretical Criminology*, Vol. 14, No. 1 (2010), pp. 104-110; Manuel Aalbers, "Neoliberalism is Dead ... Long Live Neoliberalism", *International Journal of Urban and Regional Research*, Vol. 37, No. 3 (2013), pp. 1083-1090.

<sup>126</sup> "Barack Obama's Inaugural Address", *The New York Times*, <http://www.nytimes.com/2009/01/20/us/politics/20text-obama.html>, accessed on July 13, 2017.

neoliberal practices will be replaced by some other frameworks of government behaviour, and these will most probably be more state-controlled frameworks. However, neoliberals seem hopeful about a future in which neoliberalism will be even more influential: "It seeks constant improvement and convergence on its goals. It is ongoing. The neoliberal mentality is optimistic enough to believe it can be even more influential in the future than it has in the past".<sup>127</sup> Regardless of the peak neoliberalism debates, all this decades-long neoliberal transformation process showed that, "once the neoliberalism genie had escaped the bottle, it proved to be difficult to get it back in".<sup>128</sup> On the other hand, as Gibson-Graham refer to as 'paranoid theorizing', there are forces that are large, dark, relentless and all-encompassing that constitutes the underlying source of explanation of everything.<sup>129</sup>

The next part will explore the meaning of liberalisation in the electricity sector which is among network-dependent utilities services. The neoliberal approach towards the utilities sector has been shaped by the 'tragedy of the commons' thought which highlights the tendency of individuals to irresponsibly super-exploit common property resources such as land and water.<sup>130</sup> This approach becomes even more meaningful, when thought with Rosa Luxemburg's famous analysis suggesting that capitalist system can only extent its life span by incorporating the non-capitalist areas in the economy to itself.<sup>131</sup> Neoliberalism encourages extension of profit-oriented and market-mediated capital accumulation into spaces where it is absent. For the neoliberal transformation in Turkey, this type of enlargement of capitalist areas into the Turkish electricity sector has been of vital significance. However, before the electricity

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<sup>127</sup> Pirie, op. cit., pp. 46-47.

<sup>128</sup> Steger and Roy, op. cit., pg. 93.

<sup>129</sup> Flew, op. cit., pg. 53.

<sup>130</sup> Harvey, op. cit., pg. 65.

<sup>131</sup> Rosa Luxemburg, *The Accumulation of Capital*, New York, Routledge, 2003, pg. 397.

liberalisation experience of Turkey, context and content of electricity liberalisation needs to be examined which will be done in the sections below.

#### **2.4: Neoliberalism and the Electricity Sector**

This part will clarify what liberalisation corresponds to specifically in the electricity sector, and thus, will draw the framework in which the shift in the organising principle of the electricity sector will be placed in the next chapter. Liberalisation in the electricity sector, first of all, is a reflection of a general, structural trend towards liberalisation in the world economy. It was inspired by the global neoliberal transformation, facilitated by the appropriate technological developments, popularised by the international financial organisations, and was enthusiastically embraced by the cash-strapped governments of developing countries. Therefore, every story of electricity liberalisation has a unique mixture of ideological, technological, political, and internal factors. For this reason, debates on even some fundamental aspects of electricity liberalisation is far from ending, and formulation of a standard prescription for liberalisation has not been possible yet.

From the international political economy perspective, electricity liberalisation, as an example of policy diffusion, has vital importance for countries much beyond of being a mere sectoral policy because, it is indeed a choice about how to integrate the national economy with the global economy, and only "few policy choices are as fundamental as those that determine how a national economy should engage or resist the forces of economic globalisation."<sup>132</sup> Thus, electricity sector liberalisation is an indicator of the state of affairs between a country and the global power structures. It is important to note that liberalisation is not a completed process anywhere, as Pollitt agrees: "While it is common the liberalisation of energy markets in recent years, it is important to recognise that

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<sup>132</sup> Simmons and Elkins, op. cit., pg. 171.

liberalisation has occurred over a number of years and is by no means complete."<sup>133</sup>

Electricity and natural gas sectors are network dependent utility services and since they are network dependent services at the current technological level, they have a considerable degree of sunk costs which make them natural monopolies. Demsetz explains the emergence and features of natural monopolies as:

If, because of production scale economies, it is less costly for one firm to produce a commodity in a given market than it is for two or more firms, then one firm will survive; if left unregulated, that firm will set price and output at monopoly levels; the price-output decision of that firm will be determined by profit maximizing behavior constrained only by the market demand for the commodity.<sup>134</sup>

Since the second half of the 19<sup>th</sup> century, these sectors developed as vertically integrated monopolies owned by either publicly or privately due to their natural monopolistic features. In the early stages, the global tendency was allowing private vertically integrated companies to become private monopolies within a limited region by giving them concessions. This was the common behavioural pattern everywhere, from the United States of America or the United Kingdom, to Turkey of the time, the Ottoman Empire, which met with electricity as late as 1902.

However, starting with 1929 crisis and gaining pace with the outbreak of the World War II, industries, including infrastructure industries, were nationalised in many countries, especially in the belligerents. Some proponents of nationalisation, for example in Britain, advocated that alongside its contributions to the war effort, the policy will also serve to a number of aims

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<sup>133</sup> Michael G. Pollitt, "The role of policy in energy transitions: Lessons from the energy liberalisation era", *Energy Policy*, Vol. 50 (2012), pg. 129.

<sup>134</sup> Harold Demsetz, "Why regulate utilities?", *Journal of Law and Economics*, Vol. 11, No. 1 (1968), pg. 56.

including providing consumers with higher-quality goods and services at lower prices, creating a more equal distribution of wealth, and preserving jobs by operating more efficiently and economically.<sup>135</sup>

Nevertheless, the ideological framework in which the economic activity was structured changed with the rise of embedded liberalism to the position of dominant economic paradigm; the ideological basis of publicly-owned industries started to erode gradually, with some sectoral exceptions including massive infrastructure sectors. Still, questions and complaints about the performance of the state-owned enterprises got increasingly louder. According to Miller, the difference between the performance levels of state-owned and private enterprises springs from their goals; the former pursues social and political objectives, rather than pure economic rationality.<sup>136</sup> In this sense, embedded liberalism approach transferred the initiative in many sectors to the private investors in order to allow the firms to operate solely with economic aims and to allow the state to manage the economy by 'fine tuning' the demand through fiscal policies. Network dependent sectors, especially electricity, were not among those for a number of reasons.

For this reason, the overarching aim of electricity liberalisation is to create competition at the levels of generation and supply, and ensuring economically efficient price structure in a vertically and horizontally unbundled electricity industry, by allowing the new entrants, implementing demand-side approaches, and realising privatisations. Similar to this description, Sioshansi and Pfaffenberger argue that the overriding reform goal had been to create new institutional arrangements for the electricity sector that provide long-term benefits to society and to ensure that an appropriate share of those benefits

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<sup>135</sup> Herbert Morrison, *Government and Parliament: A Survey from the Inside*, London, Oxford University Press, 1964.

<sup>136</sup> Alan N. Miller, "Ideological Motivations of Privatization in Great Britain Versus Developing Countries", *Journal of International Affairs*, Vol. 50, No. 2 (1997), pg. 397.

were conveyed to consumers through prices that reflect the efficient economic cost of supplying electricity and service quality attributes that reflect consumer valuations.<sup>137</sup>

The liberalisation process is an administrative and organisational restructuring process in an economic sector above everything and consists from various major steps which need to be taken in sequence. At this point, by joining the convergence in the literature, it is better to express that the electricity liberalisation has a tentative character to some degree still; it can even be called as "one of the longest running and most interesting set of multi-country microeconomic experiments".<sup>138</sup> Jamasb and Pollitt regard liberalisation "a work in progress" which is learned by doing.<sup>139</sup> Although there are a few differences between various liberalisation models, the standard textbook model for restructuring the electricity industry includes some fixed steps. Bacon and Besant-Jones divide the necessary steps into four main areas as: occurrence of political commitment, creation of a regulatory agency, realisation of unbundling, and reduction of the state ownership.<sup>140</sup> EBRD defined electricity sector liberalisation steps as 1) Power sector is a department of government and open to political interference, 2) Power monopoly is distanced from government, but still open to political interference and there is only minimal private investment, 3) Law for restructuring, vertical unbundling, regulator agency is adopted and private investments increase, 4) Full unbundling is realised and substantial

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<sup>137</sup> Paul L. Joskow, "Introduction to Electricity Sector Liberalization: Lessons Learned from Cross-Country Studies", *Electricity Market Reform: An International Perspective*, Fereidoon P. Sioshansi and Wolfgang Pfaffenberger (eds.), Oxford, Elsevier, 2006, pg. 3.

<sup>138</sup> Michael G. Pollitt, "Foreword: Liberalization and Regulation in Electricity Systems – How can We get the Balance Right?", Fereidoon P. Sioshansi (ed.), *Competitive Electricity Markets: Design, Implementation, Performance*, Amsterdam, Elsevier, 2008, pg. xvii.

<sup>139</sup> Tooraj Jamasb and Michael Pollitt, "Electricity Market Reform in the European Union: Review of Progress toward Liberalization and Integration", *The Energy Journal*, Vol. 26 (2005), pg. 15.

<sup>140</sup> Robert W. Bacon and John Besant-Jones, *Global Electric Power Reform, Privatization and Liberalization of the Electric Power Industry in Developing Countries*, Washington D.C., World Bank, 2002, pg. 4.

private investment is included.<sup>141</sup> The process can be described in a more concrete and comprehensive manner with a compilation of the existing literature.<sup>142</sup> Thus, after the occurrence of the political commitment, the process proceeds through these stages:

A) It first starts with the vertical unbundling of the monopoly into the areas of generation, transmission, and distribution. The regulatory agency is better to be established at this stage because, as a specialised organisation, it can guide and monitor the process better. In addition, creation of institutional capacity is known to be hard; the earlier it begins, the sooner it matures.

B) Then, the generation segment is horizontally restructured to open space for competition at wholesale markets and to destroy the market power at supply segment. At this early stage, especially in the developing countries where depth of the financial markets are relatively low, a wave of massive privatisation is not rational, because if the limited private capital is attracted to the already existing generation facilities, financial ability of the private sector to undertake new investments (especially new generation plants) may diminish and responding the rapidly growing demand may become much harder. However, in order to have competition at supply level, enough privatised generation capacity must exist.

C) It is followed by the designation of an independent transmission system operator to facilitate geographic expansion of competition and to prepare the ground for the third party access to the transmission and distribution network. Also, this is a technical compulsion in order to satisfy the physical parameters in the electricity sector such as frequency, voltage, and stability. The ownership structure of the transmission system operator, public or private, does not have a radical effect on the

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<sup>141</sup> David Kennedy, *Competition in the Power Sectors of Transition Economies*, Working Paper 41, London, EBRD, 1999, pg. 24.

<sup>142</sup> For a more detailed description of the energy liberalisation process, see Paul L. Joskow, "Lessons Learned from Electricity Market Liberalization", *The Energy Journal*, Special Issue, The Future of Electricity: Papers in Honor of David Newberry (2008), pp. 9-42.

consequences. The ownership structure, just like many other aspects of the reform, is a political matter; yet, its independence has vital importance. At this stage, privatisation of distribution infrastructure becomes appropriate and essential both in order to create the demand side in the competition, and to reduce the role and political interference of the state in the sector. Furthermore, privatisation of distribution infrastructure can bring substantial amount of privatisation income to the governments of the developing countries. At the same time, the eligible consumer limit can begin to be reduced gradually at this level.

D) Following the formation of private actors in both supply and demand sides of the competition equation, a wholesale market can start operating where suppliers and consumers (through distribution and retail companies) come together and set an economically efficient price. After occurrence of a wholesale market, any kind of political interference, incentive mechanism, or guarantee of purchase becomes price-distorting intervention and prevents emergence of correct market signals by altering the economically efficient price levels. Regardless of their normative superiority, environmental regulations in the electricity sector which favour the renewable energy resources are price-distorting factors, too.

E) After the formation of an operating wholesale market, privatisation of generation assets is necessary to reduce the remaining role of the state. In most cases, privatisation of the generation facilities is a significant source of revenue for governments, and even just for this reason, electricity industry is at the focus of governments which need money.

F) With the disappearance of the state's role in the market mechanisms, the electricity sector will become fully liberalised. Once the full liberalisation is accomplished, the electricity price will be determined completely at the free market where enough number of producers and consumers interact, without any political intervention of the state.



Although the textbook model of liberalisation describes the method in a specific way, this is not an automatic process which starts spontaneously and progresses homogenously everywhere. On the contrary, for example in Turkey, it started only with a strong political commitment, progressed with ups and downs, and where it has come is a function of where it started from. Electricity sector reforms in developing countries take place within diverse political, economic, and structural contexts. Many of the reforms were initiated at a time when international experience was limited. As a result, the reforms took a variety of forms and followed various paths.<sup>143</sup> Joskow identifies three types of reform programmes; the first is comprehensive restructuring using the textbook model (Britain, Argentina, New Zealand); the second is introduction of competition with minimal structural reform (Germany, France, Japan); the last one is another course of action which falls between the two extremes (Chile, California).<sup>144</sup> After this classification he notes that the ideal textbook performance with perfectly competitive markets was never achievable in reality and decision makers should be looking for the best that they can do in an imperfect world.<sup>145</sup>

Apart from classification of restructuring process, there are four basic market models for the electricity industry: 1) Monopoly, 2) Single buyer agency, 3) Wholesale competition, 4) Retail competition (see Table 2.1). In the first model, there is no competition, the monopoly can be public or private, and it belongs to the pre-liberalisation era. In the second model, a single buyer agency buys the necessary energy (electricity, for example) and suppliers (generators) compete with each other to sell to the single buyer. In the third model, there is an operating wholesale market which allows distribution companies to buy from generators, transmit the energy via a network to their own service areas and

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<sup>143</sup> Tooraj Jamasb, "Between the state and market: Electricity sector reform in developing countries", *Utilities Policy*, Vol. 14, No. 1 (2006), pp. 14-15.

<sup>144</sup> Joskow, "Lessons Learned From Electricity Market Liberalization", pg. 2.

<sup>145</sup> Ibid., pg. 14.

sell to their customer consumers. In the last model, there is competition at the retail level and all consumers can choose their retail supplier firm. Typically, restructuring starts from the first model and proceeds to the fourth.<sup>146</sup>

Table 2.1 Market Models in the Electricity Sector (Source: Own Elaboration)

| Market Model          | Features                                                                                                                       |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Monopoly              | No competition, vertically integrated public or private monopoly.                                                              |
| Single Buyer Agency   | Suppliers compete to sell to the single buyer.                                                                                 |
| Wholesale Competition | Distribution companies buy from suppliers at wholesale market, use transmission network to service area and sell to consumers. |
| Retail Competition    | Retail companies buy from suppliers, use existing distribution network, and compete for selling to consumers.                  |

At the first glance, it may seem that liberalisation and regulation are opposite to each other; but, they are indeed complementary with each other. Despite the fact that any regulation is a market distorting intervention by its nature, in the literature, there is almost a convergence on the necessity of regulation for the energy sector; in other words, liberalisation and regulation goes hand in hand in the energy markets. Pollitt makes useful definitions for liberalisation and regulation to see this interconnectivity:

By liberalisation I take to mean the use of market or quasi-market mechanisms as part of a reform of the sector, by regulation I take to mean intervention to restrain the operation of market prices or to set standards (e.g. for quality or system security) at variance with those that would otherwise have operated in the absence of regulation.<sup>147</sup>

According to him, regulation is compulsory and "liberalisation of electricity systems typically happens within a context of regulation" and "there is no such thing as complete deregulation of electricity markets".<sup>148</sup> In addition, regulation

<sup>146</sup> Laszlo Lovei, "The Single-Buyer Model: A Dangerous Path toward Competitive Electricity Markets", *Viewpoint* 225, Washington D.C., World Bank, 2001, pg. 4.

<sup>147</sup> Pollitt, "Foreword: Liberalization and Regulation in Electricity Systems", pg. xvii.

<sup>148</sup> Ibid., pg. xvii.

is sine qua non for ensuring third party access to the network, and for setting standards in some non-price areas such as quality of service or network losses.<sup>149</sup> Furthermore, there may be some disincentives in coordination and communication for competing companies.<sup>150</sup>

There are two basic views concerning the role of regulation in the electricity markets. The first approach, "create playing field where the regulator plays the role of the referee", sees the prime purpose of restructuring as formulating a set of rules to encourage free competition and advocates that the regulator should deliberately refrain from generation and supply.<sup>151</sup> The second approach, "write a script and make the puppets dance", prefers a more prescriptive market where the regulator prepares the plot and makes sure that the players act according to the rules.<sup>152</sup> The former one is like football, the referee intervenes to the game as less as possible, and the latter is like the traditional Turkish shadow theatre, *Karagöz and Hacivat*, puppets are made dance according to the script. Perhaps, the best principle regarding the regulation seems what Littlechild suggests: "competition where possible, regulation where not".<sup>153</sup>

This chapter has dealt with the first step in the chain reaction, revealed the ideological roots of the global neoliberal transformation in practices of political economy. Thus, attributes and policy diffusion mechanisms of neoliberal structuralisation and electricity liberalisation has been defined; these will be incorporated to the framework of structural power in the following chapter. In the next chapter, structural power concept and the structural transformation in

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<sup>149</sup> Ibid., pg. xviii.

<sup>150</sup> Fereidoon P. Sioshansi and Wolfgang Pfaffenberger, "Why Restructure Electricity Markets?", *Electricity Market Reform: An International Perspective*, Oxford, Elsevier, 2006, pg. 38.

<sup>151</sup> Ibid., pg. 42.

<sup>152</sup> Ibid., pg. 43.

<sup>153</sup> Stephen Littlechild, "Beyond Regulation", Colin Robinson (ed.), *Utility Regulation in Competitive Markets: Problems and Progress*, 2007, pg. 7.

the energy structure will be examined, before the chapters about electricity liberalisation in Turkey.



## CHAPTER 3

### STRUCTURAL TRANSFORMATION IN THE ENERGY STRUCTURE

As explained partly in the previous chapter, the structural transformations in the finance and knowledge structures are by-products of the global neoliberal turn. As a complementary to them, this chapter analyses the transformation in the energy structure. It begins by examining the structural power concept with a special emphasis on the energy structure, reveals the drivers of change in it, and closes with the analysis about the changes in the finance and knowledge structures by incorporating the effects of change in these structures to the energy structure, before clarifying the scope of change in the energy structure by attesting it with cross-country examples. Thus, the ground will be ready for further theoretical and practical analyses about the Turkish electricity liberalisation, and for comparing and contrasting the Turkish case with the other examples, to see structural patterns.

The chapter will also construct the theoretical framework within which the Turkish electricity liberalisation will be examined in the following chapters. The organising question of this chapter is 'how does the structural power concept relate to the energy structure?' To construct this framework, chapter will start by touching upon the current debates in the power literature, and by revealing different aspects of it briefly.

Power is the sole currency in international relations. This has been so since the time of Thucydides who wrote the *History of the Peloponnesian War* in the

Ancient Greek; the famous Melian Dialogue in his book is one of the first records about the power concept.<sup>154</sup> Be it politics among nations or relationships between states and international organisations, power is intrinsic to relations at all levels. Significance of power can be extended to relations between non-state actors even, if one adopts “triangular diplomacy” concept of Susan Strange in her analysis. In spite of centrality of power for the discipline of International Relations, it is a contested notion interestingly. The definitions made for it, identified elements to measure and compare it, and classifications developed to decompose and taxonomise it range largely in the literature.

Joseph Nye expresses this complex situation romantically and famously as: “Power, like love, is easier to experience than to define or measure.”<sup>155</sup> Indeed, power, like love, has many definitions for many diverging or overlapping situations and its image vary according to how the defining observer experiences power and to the position from where she defines it. Nye’s expression may seem only as a romantical cliché at first, however, it includes a deeper indication about the nature of power which is easier to recognise through its effects, rather than defining it abstractly. Simply, one may not be able to define it, but she will definitely recognise when she encounters with it.

For this reason, regarding the definition of power, there is a plenty, rather than scarcity. Dowding identifies at least ten “interwoven” debates about the nature and definition of power.<sup>156</sup> One of the most cited and widely accepted definitions of power, belongs to Dahl who defines it as “something like this: A has power

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<sup>154</sup> The Melian Dialogue is between the Athenians and Melians and is about the Melians’ refusal paying a tribute demanded by Athens in return for sacrificing the lives of Melians and not invading their island, during the Peloponnesian War. The island of Melos is currently known as *Değirmenlik*, in Turkish.

<sup>155</sup> Joseph S. Nye Jr., *Power in the Global Information Age: From Realizm to Globalization*, London, Routledge, 2004, pg. 53.

<sup>156</sup> Keith Dowding, “Introduction”, Keith Dowding (ed.), *Encyclopedia of Power*, California, SAGE, 2011. pg. xxiv.

over B to the extent that he can get B to do something that B would not otherwise do.”<sup>157</sup> Organski, from a similar standpoint, defines power as “the ability to influence the behaviour of others in accordance with one’s own ends.”<sup>158</sup> Nye uses an almost identical definition for power which, according to him, “means the ability to get the outcomes one wants.”<sup>159</sup> For Holsti, power is “the general capacity of a state to control the behavior of others.”<sup>160</sup> Karl W. Deutsch makes a more functional definition and says that power “is the ability to prevail in conflict and to overcome obstacles.”<sup>161</sup> Thus, he functionalises power and focuses more on its practical effects, rather than its theoretically pure form.

Alongside divergence in definitions of power, another divergence is the dichotomy between relational and structural forms of power. The former, relational power, is pretty much ‘relational’ and every single example of the same country’s relational power is a distinct story in itself, since in every instance reciprocal positions of the parties constitute a different equation. In this conception of power, power is not something which can be possessed, nor it produces the desired effect spontaneously; “it is constituted within a social relation.”<sup>162</sup> The famous definition of Dahl is a typical example for the relational conception of power, and Strange agrees with Dahl’s definition while defining her own conception of “relational power”.<sup>163</sup> The problem about relational conception of power is that power can only be measured or observed through

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<sup>157</sup> Robert A. Dahl, “The Concept of Power”, *Behavioral Science*, Vol. 2, No 3 (1957), pg. 201.

<sup>158</sup> A. F. K. Organski, *World Politics*, New York, Alfred A. Knopf, 1968, pg. 104

<sup>159</sup> Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics*, New York, Public Affairs, 2004, pg. 1.

<sup>160</sup> K. J. Holsti, *International Politics: A Framework for Analysis*, New Jersey, Prentice-Hall, 1977, pg. 165.

<sup>161</sup> Karl W. Deutsch, *The Analysis of International Relations*, New Jersey, Prentice-Hall, 1973, pg. 23.

<sup>162</sup> Keith Dowding, “Relational Power”, Keith Dowding (ed.), *Encyclopedia of Power*, California, Sage, 2011. pg. 563.

<sup>163</sup> Strange, *States and Markets*, pg. 24.

its effects and thanks to an interaction among different actors. Additionally, Strange puts forward that it was increasingly structural power “now being played out in the world system between states and between economic enterprises”, and “counts far more than relational power”.<sup>164</sup> That is why any proper examination of power necessitates taking structural power concept into account.

### 3.1: Concept of Structural Power

The structural conception of power, contrary to the relational one, focuses more on the role of structures in determining the choices and behaviours of actors, rather than assigning primacy to the role of actors. For this reason, there is not a specific owner of the whole structure always, but the agents within the structure have different levels of dominance over the rules of the game and the end results. In other words, a structure is more than the sum of its components, most of the time. The structural power appears under many different labels in the literature; some call it as structural power, while some preferring systemic power or meta-power etc. Yet, all variants of structural power concept share some basic points. The first and the most significant of them is highlighting the role of structure in determining the outcomes, rather than the choices of agents interacting in it. Thus, in terms of structure-agent debates, structuralist approaches prioritise the former.

In this sense, Kenneth Waltz’s “structural realism” (also known as neorealism), which depends upon the third image, is a typical example of the mindset which shapes most of the structuralist approaches.<sup>165</sup> Stephen Krasner, defined his own concept “meta-power” as “the power to change the rules of the game”.<sup>166</sup>

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<sup>164</sup> Ibid.

<sup>165</sup> Kenneth N. Waltz, *Theory of International Politics*, Long Grove, Waveland Press, 2010.

<sup>166</sup> Stephen Krasner, *Structural conflict: The Third World against global liberalism*, Berkley, University of California Press, 1985, pg. 14.



James Caporaso's definition for structural power was the power "to govern the rules which shape bargaining power."<sup>167</sup> As a general definition, as Jonathan Joseph claims, "structural power refers to the way the system reacts upon the units, forcing them to behave in a particular way."<sup>168</sup> For Susan Strange, "power cannot only settle outcomes within interstate relations due to material or ideational factors but even more importantly, power can shape and define the structures or tacit bargains states are actually embedded in and these structures become a resource of power by framing the rules of the game in favor of the actor."<sup>169</sup> Yet, "of course a possessor of structural power will in turn also have relational power that can then be exercised within the structure itself."<sup>170</sup> Strange's conception of structural power will be examined in more detail later.

Despite commonalities between different definitions which use more or less the similar expressions, the existing approaches seem insufficient in terms of theoretical explanations and revealing causation relationships in order to analyse international relations. For example, Strange's conception of structural power seems like a labyrinth where the dominant power arranges doors and walls for the mice inside, thus the dominant power decides and shapes the routes; yet how this is done is not clear enough.<sup>171</sup> In a way to confirm this judgement, Susan Strange's analysis of structural power depends upon what she herself calls "no more than a statement of common sense, although she builds up her entire analysis upon the structural power concept."<sup>172</sup> Palan claims that

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<sup>167</sup> James A. Caporaso, "Introduction to the special issue of International Organization on dependence and dependency in the global system", *International Organization*, Vol. 32, No. 1 (1978), pg. 4.

<sup>168</sup> Jonathan Joseph, "Structural Power", Keith Dowding (ed.), *Encyclopedia of Power*, California, SAGE, 2011. pg. 637.

<sup>169</sup> Pustovitovskij and Kremer, op. cit., pg. 2.

<sup>170</sup> Alan Russell, "Merging technological paradigms and the knowledge structure in international political economy", *Combining Concepts*, Vol. 22, No. 2 (1995), pg.111.

<sup>171</sup> Pustovitovskij and Kremer, op. cit., pg. 11.

<sup>172</sup> Strange, *States and Markets*, pg. 27.

Strange's structural power does not include an ultimate source of power, even in the field of security, and each facet of structural power is supported, joined to and held up by the other three primary power structures.<sup>173</sup>

This thesis, therefore, targets to contribute to Strange's conception of structural power, by explaining how causation mechanisms work in the global energy structure and in shaping a developing country's domestic energy policy preferences. In other words, this work is an endeavour of theory refinement as well. The thesis utilises Susan Strange's conception of structural power, among the others, for two simple reasons. Firstly, she divides power structures into different categories, and one of them directly is the energy structure; this means that she perceives the global energy business as a separate structure. Thus, using her concept becomes advantageous, since it suits to the analytical perspective of this thesis, like a lock and key. Secondly, this study claims that the change in the energy structure was produced by changes in the more basic structures such as finance, technology, and knowledge. Strange's approach enables the analysis to follow this path, thanks to the hierarchy she establishes between primary and secondary power structures. In her conception, finance and knowledge are among primary structures, while energy being in the group of secondary structures. According to her concept, structures are correlated with each other, and particularly the primary structures have capacity to create alterations in the secondary structures. These will be clarified better later, in the respective parts. For these reasons, using her eclectic approach to structural power seems more helpful.

Before proceeding to her concept of structural power in more detail, her understanding of political economy should be understood better, first. Strange's main idea was that "economics alone cannot explain what happens in the global

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<sup>173</sup> Ronen Palan, "Susan Strange 1923-1998: A Great International Relations Theorist", *Review of International Political Economy*, Vol 6, No 2 (1999), pg. 127.

economy and financial markets”; therefore, “trying to explain economics without consideration of political power was like studying the movement of the tides without paying attention to the moon”.<sup>174</sup> As an extension of this logic, in order to comprehend the complex socioeconomic developments, one has to scrutinise power in all its forms, and take nothing as exogenous, in her vision.<sup>175</sup> She makes a broad definition in one of her books, *Retreat of State*, where she defines power as “the ability of a person or group of persons so to affect outcomes that their preferences take precedence over the preferences of others”; thus, she avoids from “the logical trap of pinning power to the pursuit of interest -national interest, class interest, corporate interest or whatever”.<sup>176</sup> Indeed, this seems a proper and straightforward definition, if the question of how those preferences are shaped by certain values, and not by the others, is left aside. In any case, debating on the nature and determinants of national interest is beyond the scope of this thesis.

At the core of her vision, there is the belief that politics and economics cannot be separated as if they were oranges and apples, although they are incommensurable in terms of causes and outcomes, as she defended in her *Retreat of State*.<sup>177</sup> She endeavoured to melt the literatures of International Relations and economics in the same pot to reach a holistic and eclectic approach. In one of her major works, *International Economics and International Relations: A Case of Mutual Neglect*, Strange claimed that the international economic and political systems changed at different paces, and the effects of this had gone largely unnoticed.<sup>178</sup> She identified three effects on international

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<sup>174</sup> Nay Dyer, *Susan Strange: a great thinker or a 'journalist'?*, Sheffield Political Economy Research Institute, 27 February, 2019, <http://speri.dept.shef.ac.uk/2019/02/27/susan-strange-a-great-thinker-or-a-journalist/>.

<sup>175</sup> Ibid.

<sup>176</sup> Strange, *Retreat of State*, pg. 17.

<sup>177</sup> Ibid., pp. 28-31.

<sup>178</sup> Susan Strange, “International Economics and International Relations: A Case of Mutual Neglect”, *International Affairs*, Vol. 46, No 2 (1970), pg. 304.

relations created by changes in international economics, as disturbance effects, hindrance effects, and competitive effects.<sup>179</sup> The first corresponds to the direct effects on states of their common involvement in the expanding international economic network where a negative development at a remote part of the system creates disturbance in another country. The second is mutual sensitivity of national economies to each other; they reciprocally slow down or diminish the effectiveness of each other's national economic policies. The last is competitive or what used to be called 'beggar-my-neighbour' policies, by which states seeking to serve their own national economic interests, sometimes at the expense of the others.

She identifies the lack of more general studies about international economic relations -whether of problems or issue areas- treated analytically, with the political analysis predominating over the economic analysis.<sup>180</sup> This study targets to be one treating liberalisation of Turkish electricity sector analytically with the political analysis predominating over the economic analysis, as Strange advised. She claims that economists write on international economic problems as though political factors and attitudes simply did not exist, and could be brushed aside.<sup>181</sup> In this framework, she thinks that the bias of economics towards an over-optimistic view of international relations was not surprising, since it tended as a discipline to exaggerate the rationality in human behaviour. Tooze emphasised that this was to gain scientific legitimacy and theoretical precision.<sup>182</sup> Strange has always remarked that it was actual events that drove international political economy, not only in practice, but also in theory, as Tooze reminds. Palan, in a supporting way, says that Strange was neither a theorist nor an empiricist, she was not dealing with theory for its own sake, but found

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<sup>179</sup> Ibid., pg. 305.

<sup>180</sup> Ibid., pg. 308.

<sup>181</sup> Ibid., pg. 309.

<sup>182</sup> Roger Tooze, "Susan Strange, Academic International Relations and the Study of International Political Economy", *New Political Economy*, Vol 5, No 2 (2000), pg. 282.

empirical research boring too; she was interested in theoretically informed empirical research.<sup>183</sup> This is the exact path which this study aims to follow: analysing the global structural effects on the Turkish electricity liberalisation with a theoretically informed empirical approach.

In her seminal work, *States and Markets*, she organised her ideas about the nature of power in international relations, and enhanced our understanding of power by proposing a significant taxonomy between two types of power. The first type, relational power, is the power of A to get B to do something that B would not otherwise do, as Dahl defined famously.<sup>184</sup> The second type, structural power is the power “to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate”.<sup>185</sup> Since this thesis employs the concept of structural power for the reasons mentioned earlier, structural power will be given in a much more detailed way. Susan Strange defines four primary structures of structural power as security, production, finance, and knowledge:

... structural power lies with those in a position to exercise control over people's security. It lies also with those able to decide and control the manner or mode of production of goods and services for survival. Thirdly, it lies -at least in all advanced economies, whether state-capitalist, private capitalist or a mix of both - with those able to control the supply and distribution of credit. Fourthly and lastly, structural power can also be exercised by those who possess knowledge, who can wholly or partially limit or decide the terms of access to it.<sup>186</sup>

Possession of, or at least some degree of influence over, the structural power in any of these primary structures enables the possessor to change the range of

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<sup>183</sup> Palan, op. cit., pg. 123.

<sup>184</sup> Strange, *States and Markets*, pg. 25.

<sup>185</sup> Ibid.

<sup>186</sup> Ibid., pp. 26-28.

choices open to the others without deliberately pressurising them.<sup>187</sup> Thus, some choices can be made easier or more costly for some others in an invisible way.

The first structure, security, “is the framework of power created by the provision of security by some human beings for others”.<sup>188</sup> In order to analyse practical aspects of the security structure, Strange asks who provides security for whom, against what perceived threats, or what price or terms are exacted for the security. Strange recognises the monopolistic role of states in legitimate violence and the provision of security, particularly against basic threat of sudden unnatural death.<sup>189</sup> However, she also expresses the decreasing ability of individual states in providing security from disease, from disablement and other risks such as bankruptcy or unemployment.<sup>190</sup> The COVID-19 pandemic proved the inability of states in saving their citizens from unexpected global diseases and problems. She underlies that most of threats to individual security come from the other human agents.<sup>191</sup> Also, most of the threats are unevenly distributed and unevenly coped with by the authority parallel to its capabilities, and during this, new threats may arise due to conflicts of authority, as it is the case often.<sup>192</sup> According to Strange, “it is not ... the coexistence of a multiplicity of authorities in a political economy that may threaten the structure of security. It is disagreement between them about the limits of their respective authority.”<sup>193</sup>

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<sup>187</sup> Ibid., pg. 31.

<sup>188</sup> Ibid., pg. 44.

<sup>189</sup> Ibid., pg. 47.

<sup>190</sup> Ibid.

<sup>191</sup> Ibid.

<sup>192</sup> Ibid., pg. 48.

<sup>193</sup> Ibid.

Regarding different states' different levels of aggressiveness, she regards the idea that some states are more peaceful than some others as an "illusion", and agrees with Martin Wight by claiming that the main factor determining aggressiveness of a state is whether it is a satisfied, status-quo power, or a dissatisfied, revisionist one.<sup>194</sup> Although increasing wealth brought by industrialisation and increasing costs and destruction of the wars limit opting for that option, new possibilities, such as the protection of overseas investments made by a country can draw that country into war.<sup>195</sup> Another insightful comment of Strange is that "the inflation in the number of states, and in the membership of the United Nations did not necessarily mean a corresponding increase in personal security."<sup>196</sup> Security structure is not related with the scope of this thesis; however the finance and knowledge structures are.

The second primary structure is production structure. Strange defines the production structure as the sum of all the arrangements determining what is produced, by whom and for whom, by what method and on what terms.<sup>197</sup> She identifies two profound changes in the production structure. The first is transition to a capitalist, market-oriented mode of production in north Western Europe.<sup>198</sup> The second change she identifies is the gradual, uneven, inexorable enlargement of production structure from one primarily serving to the national markets to one geared to serve world market. Most probably due to this, the other alternatives to the global capitalist mode of production seems declining; as she rightly points out, socialist or planned economies resist no more, import

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<sup>194</sup> Ibid., pg. 53.

<sup>195</sup> Ibid., pp. 55-56.

<sup>196</sup> Ibid.

<sup>197</sup> Ibid., pg. 64.

<sup>198</sup> Ibid., pg. 65.

substitution has become discredited, and transnational corporations become increasingly more influential.<sup>199</sup>

At this point, Strange establishes connections between globalisation and changes at the production structure; she sheds light on increasing dominance of international corporations by presenting a complex backdrop which includes “combined result of state policies and of market trends, of management strategies, and changing technology”.<sup>200</sup> She also touches upon the interactions between production structure and the other primary structures. For example, instabilities and wars in the security structure, crises and mistrust in the finance structure, and changes in the knowledge structure affected the production structure much.<sup>201</sup> In other words, Strange’s structures are not structures in vacuum, but they are alive and mutually responsive to the changes at another. This is consistent with her above-mentioned vision about conducting theoretically informed empirical researches on practical issues.

The third primary structure is finance, the most important one for the purposes of this study. In one of her works, Strange clarifies what she means by finance: “By the field of finance, I refer particularly to the system by which credit is created, bought and sold and by which the direction and use of capital is determined.”<sup>202</sup> The power in financial structure underlies the power to create credit in a way to allow/deny people to spend today and paying back later, thus letting/preventing them to have a purchasing power to affect market balances.<sup>203</sup> In a primitive economy, money is needed only for extras; yet, in a

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<sup>199</sup> Ibid., pg. 66.

<sup>200</sup> Ibid., pg. 80.

<sup>201</sup> Ibid., pp. 81-84.

<sup>202</sup> Susan Strange, “Finance, Information and Power”, *Review of International Studies*, Vol. 16, No. 3 (1990), pg. 259.

<sup>203</sup> Strange, *States and Markets*, pg. 90.



developed modern economy, money is the main means of exchange. According to Strange, finance structure, or the control of credit, is the structure which has gained importance more rapidly than the others in the last few decades.<sup>204</sup> This is because the world's growth has become possible only thanks to the creation of credit, instead of waiting for profits to accumulate. This is exactly what she argues that Marxists do not understand, "what is invested in an advanced economy is not money but credit, and that credit can be created. It does not have to be accumulated".

In another work of her, she suggests another complementary answer for the question why the importance of finance has raised so much rapidly, the escalating cost of capital.<sup>205</sup> Simply, the technological innovations increased the ratio of capital input in the investments relative to the other inputs; thus, the countries having more need for foreign capital, become more dependent upon the finance structure. This is why she claims that in political terms, money is a substitute for force as a means to economic growth and as an instrument to provide collective goods.<sup>206</sup> In other words, whoever has the power to create credit, or power to control the creation of credit, has also political power over the economic outcomes in a way to dictate its will without deliberately pressurising. For this reason, political and economic spheres should not be detached from each other, except for the purposes of analysis.

Although credit creation has some positive attributes such as stimulating growth and development, it increases inequality at the same time. At this point, Strange converges with the Marxist views when she says that if some people can accumulate capital, they can exploit it through its extra bargaining power to

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<sup>204</sup> Ibid., pg. 30.

<sup>205</sup> Strange, *Retreat of State*, pg. 9.

<sup>206</sup> Strange *States and Markets*, pg. 95.

exploit the others and that this widens the gap between poor and rich.<sup>207</sup> Similarly, developed financial systems tend to increase instability, and they do it basically in two ways. The first is overbanking which can cause financial panic and collapse, and the second is overexpansion of credit in the private sector. The problems of overbanking and financial deregulation is summarised by Strange as:

Deregulation was in fact started in the Carter Administration on the false assumption that banks were like trucking operators or airlines and could be made to compete more efficiently if they were subject to less government control. The assumption was false because, while firms in the real economy compete by reducing costs, increasing productivity or cutting costs, banks sell very similar services and their main 'raw material' is money, borrowed at the same price. They can best compete by taking risks. The most profitable (i.e. successful) competitors in banking business, therefore, tend to be the biggest risk-takers. Thus it is that 'risk-based competition propels the entire system towards excessive levels of indebtedness.'<sup>208</sup>

One of the other significant features of the global finance structure, according to her, is its alternation between the periods of disorder and instability, and periods of order and stability. Thus, it resembles the security structure at which the pendulum has swung between order and disorder (peace and war) often.<sup>209</sup> She mentions the effects of international financial institutions as well. When financial problems urge debtor countries to the IMF, says Strange, the IMF is ready and willing to advise deflationary, pro-market, and anti-subsidy policies to discipline countries with the power it holds to issue the stamp of approval which will satisfy money markets to borrow these countries.<sup>210</sup> This analysis fits to the Turkish case perfectly, as will be shown in the respective parts later. She thinks that change of the international financial system from one dominated by intergovernmental loans to one dominated by bank loans freed borrowing

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<sup>207</sup> Ibid., pg. 96.

<sup>208</sup> Ibid., pg. 110.

<sup>209</sup> Ibid., pg. 98.

<sup>210</sup> Ibid., pg. 112.

countries from “politically determined financial vulnerability”; yet, most of those countries, found themselves “chained to the decisions of the International Monetary Fund, without whose seal of approval the commercial banks were unwilling to give them new credit.”<sup>211</sup>

The reason for why many of developing countries face with similar destinies in the international financial structure is the “global system in which the national markets, physically separated by distance, actually function as if they were one.”<sup>212</sup> In this system, according to her, national industrial policies and efficiency in economic management overrides choices of foreign and defence policy as the primary influences on how resources are allocated.<sup>213</sup> How states compete for wealth is also affected by the competition among firms which become global in reaching to and controlling the resources and market shares. This is why she regards the new type of diplomacy as “triangular diplomacy” which involves state-state, state-firm, and firm-firm relations. The problem is that these new dimensions of global relations “have multiplied the number of possible policy options for governments and for firms, and thus have greatly complicated the problems for both of managing multiple agendas.”<sup>214</sup> She herself summarises her ideas about the finance structure when she writes “one may say that the markets are predominantly global, while the authorities are predominantly national.”<sup>215</sup>

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<sup>211</sup> Strange, “Finance, Information and Power”, pg. 261.

<sup>212</sup> Ibid., pg. 260.

<sup>213</sup> John M. Stopford, Susan Strange and John S. Henley, *Rival States, Rival Firms: Competition for World Market Shares*, Cambridge, Cambridge University Press, 1991, pg. 1.

<sup>214</sup> Ibid., pg. 2.

<sup>215</sup> Strange, *States and Markets*, pg. 91.

The last primary structure is knowledge. Strange regards it as the most overlooked, underrated, and less well understood type of power.<sup>216</sup> Personally, it seems fair to me to claim that Strange herself, too, left the knowledge structure improperly studied, as Palan would agree.<sup>217</sup> The knowledge structure comprehends beliefs, any kind of ideas and knowledge, and how these beliefs, ideas, and knowledge are communicated, spread, or hidden, in a way to include some people/groups/countries and to exclude the others. There is a basic, distinguishing difference between knowledge structure and the others; the power originating from the other three structures, security, production, and finance, is about having a positive capacity, such as providing security or credit, but the power originating from the knowledge structure is more about having a negative capacity most of the time, such as denying some to access to knowledge. Another attribute of knowledge, unlike the others, is that its possession by one does not diminish the supply to the others.<sup>218</sup>

According to Strange, there are three significant changes in the knowledge structure. The first is changes in provision of and control over communication systems which have brought an expansion in the amount of data stored and transmitted over long distances cheaply. The second is use of non-verbal communication which has allowed long distance communication more effective. The third is changes in the fundamental beliefs and value judgements which has diminished the barriers dividing the human groups. Much before these changes, during the early and middle ages, the belief systems had been important. This has been replaced by the scientific state, and churches have been replaced by universities and schools.<sup>219</sup> Therefore, spreading some ideas through these training institutions has become a way of shaping the others' ideas and urging them to behave in certain directions. This new structure makes transnational

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<sup>216</sup> Ibid., pg. 120.

<sup>217</sup> Palan, op. cit., pg. 127.

<sup>218</sup> Strange, *States and Markets*, pg. 122.

<sup>219</sup> Ibid., pg. 126.

corporations even more advantageous in producing their own knowledge, and in keeping, internationalising, and commoditising it.<sup>220</sup>

The negative capacity in the knowledge structure includes preventing alternatives to the dominant beliefs or ideas from emerging. For example, as Strange used in her *States and Markets*, medieval church used religious education system to prevent alternative beliefs and religiously improper thoughts from emerging.<sup>221</sup> Just like that, neoliberalism, as the dominant economic ideology in the knowledge structure, together with its reflections in various sectoral policies (finance, energy etc), structurally prevents alternative ways of thinking and organising to occur by discrediting illiberal and statist alternatives, or at least pressures them to sustain its superior position. How is this done in the knowledge structure? This question also enlightens how the knowledge structure is used in this thesis. Basically, certain political economic beliefs and ideas are diffused and supported during the application, within the framework of knowledge structure.

The structural power in knowledge structure lies in selection of which values are diffused and defended globally. Thus, it is the knowledge structure which draws the boundaries of the acceptable and legitimisable options for different types of actors in various fields of global power structures. Simply, when a political economic belief or idea is accepted by a majority in the structure, a pressure on the actors in the minority group occurs spontaneously about legitimising their in/actions being inconsistent with the dominant beliefs and ideas. Therefore, this urges them to adapt themselves to the structure. Similarly, beliefs and ideas which are derogatory or contradictory are discredited in the public opinion, without a deliberate effort most of the time. As American philosopher Richard Rorty summarised perfectly, what is true or legitimate is

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<sup>220</sup> Ibid., pg. 133.

<sup>221</sup> Ibid., pg. 123.

what our contemporaries “let us get away with”.<sup>222</sup> That is to say, boundaries of acceptable or conceivable actions and policies are delineated and constructed by the accepted framework of the knowledge structure. A detailed account of how diffusion takes place in the knowledge structure was given in the framework of policy diffusion literature before (see Chapter 2.3).

As Strange noted, monopoly against other possible sources of alternative legitimate ideas and ways of doing things helps actors to maintain and defend their power in the knowledge structure.<sup>223</sup> For this reason, those who have power jealously defend their positions with “whatever kinds of power they have”.<sup>224</sup> In order to defend monopoly or supremacy in the knowledge structure, power in the other structures can be exploited as well. Again, as Strange highlights, it is information and knowledge that “unlocks the door giving access to credit.”<sup>225</sup> That means, what is financed by the credit suppliers should fall within the boundaries of the knowledge structure to be acceptable. Globally dominant financial actors, be it private banks or international financial institutions, use their controlling position both to support the favoured political economic ideas and beliefs to shape preferences of countries and to deny the ones which do not conform to tenets of the knowledge structure. A more detailed analysis with practical examples is given later.

Alongside primary structures, Susan Strange defines four secondary power structures as transnational transport systems, the trading system, the energy supply system, and transnational welfare and development system.<sup>226</sup>

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<sup>222</sup> Richard Rorty, *Philosophy and the Mirror of Nature*, Princeton, Princeton University Press, 1979, pg. 176.

<sup>223</sup> Strange, op. cit., pg.124.

<sup>224</sup> Ibid., pg. 128.

<sup>225</sup> Ibid., pg. 138.

<sup>226</sup> Ibid., pg. 139.

Regarding these secondary structures, Strange admits that the choice is a bit arbitrary and some other structures can be included such as international law structure. She explains the common attributes of the secondary structures as that they depend upon a framework of values within which the choices are made, and that they mostly have separate ministries in many countries to handle state-market and domestic-international relations. Since these structures are of secondary structures, only energy supply system will be included here.

### **3.2: Energy Structure**

The energy structure is so significant for Strange that she regards it as the “fifth factor” of production alongside land, labour, and capital (and technology).<sup>227</sup> From a historical perspective, she claims that the replacement of coal by oil towards the mid-1900s has increased energy trade, but energy is still high politics as the object of national strategy and international diplomacy.<sup>228</sup> The fundamental attribute of oil distinguishing it from coal is that it is much more mobile. Thus, she argues, relatively more mobile nature of oil provides a net increase in the mobility of factors of production. However, as she rightly points out, “being more mobile does not mean that it is any less political; only that the politics become transnational”.<sup>229</sup> From a similar point of view, transition to a more mobile energy architecture based on electricity may not mean less politicisation of energy.

Another point she touches upon is the lack of theoretical works regarding the field of energy; yet, she calls this something fortunate. There is lack of theories about the energy structure because people dealing with it were practitioners

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<sup>227</sup> Ibid., pg. 190.

<sup>228</sup> Ibid., pg. 193.

<sup>229</sup> Ibid., pg. 194.

focusing on particular problems, not scholars seeking for general theories; and their main concern was about running the market and managing government-corporation relations. On the other hand, economic theoreticians can see that the energy markets are vastly open to political effects. This study tries to harmonise praxis with theory at a balanced degree, by avoiding being too much theoretical or practical oriented, as Strange advised; and reach at some loose theoretical explanations regarding the energy structure which Strange analyses from an almost completely historical standpoint.

This is actually why this thesis approaches the topic from a perspective of international political economy, instead of looking through purely economic or purely political lenses; to dig out the political economic effects in a domestic economic sector at both national and international levels, and to shed light on determining effects of the global power structures on a developing country's domestic energy policy preferences. Strange expresses lack of this type of studies as: "... general theorists in political science and in international relations have been unaccustomed to take account of such powerful forces from a global market."<sup>230</sup> In the energy structure, state policies are more focused on energy security, and theories about strategic studies and military security cannot be applied to the political economy of energy structure. Thus, she calls political economy of energy a classic case of no man's land occupied by none of the major disciplines.

As a solution, she expresses the need for analytical framework for relating the impact of states on energy markets, with the impact of markets on policies, development, and security of states. What this study tries to produce is a such framework relating not only to state policies and energy markets, but also to global power structures influencing this issue area. Strange emphasises the fundamental role of energy for political economy and the relationship between

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<sup>230</sup> Ibid., pg. 195.



energy and the primary power structures as: “... although energy is the *sine qua non* for the exercise of power in the international political economy, and neither security nor wealth can be achieved without a secure supply of energy, yet change in the world's energy system has taken place within, and under the influence of, the four primary structures described earlier”.<sup>231</sup> That is to say, position of an actor in the global energy structure affects its position in the other power structures too.

The backbone of Strange’s analysis regarding the energy structure is historical; she talks about historical developments and anecdotal examples throughout her analysis mostly. Although this weakens her analysis by causing a theoretical insufficiency, historicism of her approach allows her to integrate an anthropological framework to her analysis; thus, Strange’s analysis is empowered with the contribution of a human dimension. Historicism of the analysis serves to understanding roots of the concept of energy security, the fundamental principle underlying foundation of the European Coal and Steel Community, better as well. She tends to explain the changes in the characters of various energy-related organisations and regimes such as Organisation of Petroleum Exporting Countries, International Atomic Energy Agency, and International Energy Agency through the lens of “regime change” theory of Keohane and Nye. In spite of some advantages of this approach, it does not satisfy the analytical need to explain strengths and weaknesses of the global energy structure perfectly. Because this thesis, as will be shown in the following parts, claims that there is a lack of international regimes dealing with electricity and electricity liberalisation. It prefers using ‘organising principle’ to imply a set of norms, rules and expectations, in the next chapters.

Strange is not alone in perceiving energy as a global structure. Literatures of International Political Economy and International Relations have a wide range

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<sup>231</sup> Ibid., pg. 209.

of studies about how global energy system is managed and why international energy organisations perform relatively poorly. In the literature, “energy regime” and “energy governance” terms are also used interchangeably, in order to refer to the global energy structure. Colgan, Keohane, and Graaf define energy “nonhierarchical regime complex” as an array of partially overlapping institutions governing energy area.<sup>232</sup> Similarly, energy governance is something which “encompasses rulemaking and enforcement that aims to overcome the collective action problems related to energy supply and use” and it refers “to the rules and actors related to energy that cross national borders”.<sup>233</sup> Regardless of which term is utilised, structure, regime, or governance, there is a spontaneous tendency to take the energy ‘structure’ as something global. This can be explained partly by what Strange emphasised, increasing mobility of energy substances. At the same time, and more than that, it is because energy “is associated with many of the most acute dilemmas of global politics – most prominently, the joint imperatives of rapid decarbonization and improved energy access and security for the world’s poorest countries and communities”.<sup>234</sup>

In spite of terminological divergence in defining what the global energy structure is, the literature presents a more detailed account of actors interacting in the structure. Sovacool and Florini, after detecting almost 50 energy institutions, define six types of actors which take place in the energy governance.<sup>235</sup> The first group is intergovernmental organisations, such as the IEA, which are created and funded by governments and have secretariats; second is summits having no charter, fixed membership or secretariat, but

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<sup>232</sup> Jeff D. Colgan, Robert O. Keohane and Thisj Van de Graaf, “Punctuated equilibrium in the energy regime complex”, *Review of International Organisations*, Vol. 7 (2012), pg. 118.

<sup>233</sup> Benjamin K. Sovacool and Ann Florini, “Examining the Complications of Global Energy Governance”, *Journal of Energy and Natural Resources Law*, Vol. 30, No. 3 (2012), pg. 237.

<sup>234</sup> Jeffrey D. Wilson, “Multilateral Organisations and the Limits to International Energy Cooperation”, *New Political Economy*, Vol. 20, No. 1 (2015), pg. 86.

<sup>235</sup> Sovacool and Florini, op. cit., pp. 238-239.

offering a way to address pressing multilateral problems; third is international non-governmental organisations having boards and receive funding from various public and private sector actors; fourth is multilateral financial institutions, such as development banks providing economic and technical assistance and loans to governments; fifth is regional organisations involving members from a particular segment of the world; sixth is hybrid entities including everything that may weave some of the previous five types of governor together. Another study uses a different taxonomy and classifies five types of actors in the global energy structure according to their scope and membership attributes as global and universal; specific and universal; global and limited; specific and limited; and regional.<sup>236</sup>

Differently, Strange divides international organisations into three as strategic, adaptive, and symbolic, in one of her articles about regime analysis.<sup>237</sup> The strategic ones serve as instruments of states, adaptive ones provide states with necessary multilateral arrangement and agreements, and symbolic ones allow each government to declare its' good intentions. In terms of energy organisations, what is missing is an international organisation conducting strategic and adaptive functions. For example, the IEA was born as a strategic, and later an adaptive international organisation. Nevertheless, currently the IEA seems evolved into a symbolic and adaptive organisation, and no other energy related international organisation is capable of filling the lack of an international organisation uniting both strategic and adaptive functions.

Whatever the types or the number of energy organisations, it is almost unanimously recognised that international energy organisations demonstrate a

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<sup>236</sup> Sylvia I. Karlsson-Vinkhuyzen, "The United Nations and global energy governance: past challenges, future choices", *Global Change, Peace & Security: formerly Pacifica Review: Peace, Security & Global Change*, Vol. 22, No. 2 (2010), pg. 180.

<sup>237</sup> Susan Strange, "Cave! hic dragones: a critique of regime analysis", *International Organization*, Vol. 36, No 2 (1982), pg. 484.

weak performance. Wilson asks “Why is global energy governance so poorly developed?” and finds his answer in “resource nationalism”.<sup>238</sup> According to him, “this raises the ‘sovereignty costs’ of international energy co-operation, and can lead to vetoes against proposals which proscribe states’ policy options.”<sup>239</sup> Therefore, governments, especially major energy players, prefer ‘soft law’ type institutions focusing only on dialogue and information-sharing activities. In another study, Wilson identifies the root cause of the poor performance of international energy organisations more generally as “the political economy features of energy – namely, the securitised nature of energy issues and attendant patterns of economic nationalism” and describes three problems of international energy organisations created by political economy features of energy.<sup>240</sup> The first is membership issues, mostly faced by organisations such as the IEA or OPEC which have a limited and closed base for membership. The other set of problems is design issues, usually experienced by actors, such as International Energy Forum, which have broad memberships, but loose and informal organisations. The last set of problems is commitment issues, mostly damaging organisations such as World Trade Organisation and Group of Eight which have representative memberships, but lack of commitment to a specific energy policy target among members.

Another study calls the reason for inefficiency in global energy co-operation as “high politics” and claims that energy, and its patterns of production and consumption, had belonged to the area of ‘high politics’ where national rather than collective security had been a primary concern (with the exception of nuclear energy).<sup>241</sup> Generally speaking, for international energy organisations,

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<sup>238</sup> Jeffrey D. Wilson, “The resource nationalist challenge to global energy governance”, Andreas Goldthau, Michael F. Keating and Caroline Kuzemko (eds.), *Handbook of the International Political Economy of Energy and Natural Resources*, Cheltenham, Edward Elgar Publishing, 2018, pg. 52.

<sup>239</sup> Ibid., pg. 55.

<sup>240</sup> Wilson, “Multilateral Organisations and the Limits to International Energy Cooperation”.

<sup>241</sup> Karlsson-Vinkhuyzen, op. cit., pg. 175.

there is a trade-off between representation and capacity, as Goldwyn and Cornell suggested. “The tension between inclusiveness and effectiveness is sometimes inherent, groups where more concrete progress has been made in terms of policy or technical consensus are those whose memberships reflect narrower interests and aims”.<sup>242</sup> Resultantly, “in terms of energy policy and governance, international consensus is elusive”.

On the other hand, countries demonstrate an inclination to take place in some international energy organisations and forums, albeit in non-binding ones. One of the main motivations behind this was states’ need to adapt “themselves to the changing conditions of international energy markets in order to increase their capacity to play an effective role through energy diplomacy”; thus, they can “coordinate their energy strategies with those of domestic energy actors and to cooperate with international energy actors in order to pursue their energy diplomacy more effectively”.<sup>243</sup> The other motivation, interestingly, seems what exactly created reluctance for the states to take place in the international energy organisations, in the first place: polarisation. From the 1960s until the end of the Cold War, countries were polarised and divided as exporters and importers. This caused a divergence between the interests of countries of the either party; exporters tried to divide importer countries and to maximise their political economic gains, while importers targeting depoliticisation of energy resources and smooth and uninterrupted functioning of the energy markets. Departing from this historical path, Baccini et al. identified different patterns of behaviour for why exporter and importer countries joined international energy organisations. According to them, exporters join in response to their main trade partners and competitors in the energy sector having previously gained

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<sup>242</sup> David Goldwyn and Phillip Cornell, *Reform of the Global Energy Architecture*, Atlantic Council, 2017, pg. 8.

<sup>243</sup> Oktay F. Tanrisever, “Energy Diplomacy in an Increasingly Interdependent and Globalizing World”, *Energy and Diplomacy*, Vol. 1. No 1 (2015), pg. 22.

membership.<sup>244</sup> The importer countries join, because, firstly, international energy organisations provide them with rare and precious information which is highly valuable for them in the energy market, and secondly, since many importer countries are not powerful enough to sustain their own energy security on their own, this urges them joining to a larger group of importer countries.<sup>245</sup>

This causes the global energy structure to remain as a looser structure than the other primary structures are. The relatively weaker role of energy in the UN and WTO systems confirms this too. Until the year 2000, no nation had filed a request for consultations in the WTO regarding the energy sector.<sup>246</sup> This confirms that what role the WTO plays in international trade or the IMF in international finance is missing, when it comes to energy.<sup>247</sup> Similarly, an energy branch in the UN system was only established in 2004, under the name UN-Energy which specifically aims to promoting coherence in the UN system's response to sustainable development goals and enhancing co-ordination within the UN in the areas of policy development and knowledge sharing.<sup>248</sup> Vinkhuyzen has an answer for why energy has been absent in the UN system since the beginning. She claims that "creation of the UN, however, coincided with some developed countries becoming dependent on energy imports, particularly fossil fuels, from other countries. This situation meant in a geopolitical sense that the major powers focused on securing access to oil

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<sup>244</sup> Leonardo Baccini, Veronica Lenzi and Paul W. Thurner, "Global Energy Governance: Trade, Infrastructure, and the Diffusion of International Organizations", *International Interactions: Empirical and Theoretical Research in International Relations*, Vol. 39, No. 2 (2013), pg. 193.

<sup>245</sup> Ibid., pp. 201-202.

<sup>246</sup> Timothy Meyer, "Explaining energy disputes at the World Trade Organization", *International Environmental Agreements: Politics, Law and Economics*, Vol. 17 (2017), pg. 395.

<sup>247</sup> Thijs Van de Graaf et al, "States Markets, and Institutions: Integrating International Political Economy and Global Energy Politics", Thijs Van de Graaf et al (eds.), *The Palgrave Handbook of the International Political Economy of Energy*, London, Macmillan Publishers, 2016, pg. 25.

<sup>248</sup> UN-Energy, *About UN-Energy*, <https://un-energy.org/newabout/>. Accessed on January 11, 2021.

sources in key countries through various more or less transparent means”.<sup>249</sup> Therefore, in global scale, energy has been governed piecemeal, mostly in ad-hoc responses involving specific countries or groups of countries and any of a wide number of non-governmental actors.<sup>250</sup>

This piecemeal, ad hoc and responsive attribute to crises of the global energy structure resulted governance gaps and vacuum in the structure, as various scholars agree on.<sup>251</sup> Nevertheless, these weaknesses in the energy structure do not mean absence of a structure altogether. There is weak and fragmented co-operation, rather than an absence of governance mechanisms.<sup>252</sup> Despite this fragmented and complex structure in the field of energy and poor performance of international energy organisations in that structure, the role of intergovernmental organisations is not limited to technical data-gathering in a passive manner; they play a fundamental role in controlling and keeping the actors in the structure within a certain framework. “By selecting data to be gathered and choosing how to present information, IGOs can influence what issues get attention and how they are addressed. For example, since its inception, the IEA has taken an active role in conducting energy research, compiling and publishing data for public dissemination” and served as a “clearing house” for energy statistics.<sup>253</sup>

The developed countries with more determining effect in the power structures exploited this effect of energy organisations to pressurise the others towards certain ends. This is a reflection of what is called “energy bullying” in the

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<sup>249</sup> Karlsson-Vinkhuyzen, op. cit., pg. 181.

<sup>250</sup> Ann Florini and Benjamin K Sovacool, “Who governs energy? The challenges facing global energy governance”, *Energy Policy*, Vol. 37 (2009), pg. 5239.

<sup>251</sup> For selected examples, see: Wilson, “The resource nationalist challenge”, pg. 50; Florini and Sovacool, “Who governs energy?”, pg. 5239; Goldwyn and Cornell, op. cit., pp. 3-4.

<sup>252</sup> Wilson, “The resource nationalist challenge”, pg. 58.

<sup>253</sup> Florini and Sovacool, “Who governs energy?”, pg. 5243; Goldwyn and Cornell, op. cit., pg. 3.

literature. Energy bullying is attempts by developed countries to pressurise developing and the least developed countries to policies that suit renewables focused and market oriented narrative of the developed nations.<sup>254</sup> Thus, developing countries remain reliant on the technical expertise of the developed countries. Also, loan policies and financing strategies of the financial institutions play an important role in this mechanism. The mechanism reproduces main tenets of the global energy structure, with the help of the other primary power structures. Yet, not every example of policy diffusion in the field of energy is energy bullying; the other mechanisms have been discussed in the previous chapter (see Chapter 2.3), and will be enriched with specific examples from Turkey, in the following chapters.

Although complex institutional architecture of the energy power structure weakens strength of responses against collective action problems, Goldwyn and Cornell argue, “multiplicity can be a strength rather than a weakness”.<sup>255</sup> They claim that “a menu of groups can allow diverse agendas to be pursued while minimizing conflict. Opting in and out of particular initiatives can allow for more effective coalitions.” Florini shares this belief and says that it was unlikely that a single international organisation would emerge to address energy issues; “Instead, progress is more likely to occur through relatively incremental changes in the mandates and performance of the multitude of relevant institutions. Taken together, those changes could facilitate a significantly improved global environment for good energy policy”.<sup>256</sup> Colgan, Keohane and de Graaf, by agreeing with these views, put forward that it was unlikely that a coherent energy regime would be constructed over the next few decades, since

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<sup>254</sup> C.G.Monyei et. al., “Examining energy sufficiency and energy mobility in the global South through the energy justice framework”, *Energy Policy*, Vol. 119 (2018), pg. 71.

<sup>255</sup> Goldwyn and Cornell, op. cit., pg. 9.

<sup>256</sup> Ann Florini, “Global Governance and Energy”, Carlos Pascual and Jonathan Elkind (eds.), *Energy Security: Economics, Politics, Strategies and Implications*, Brookings Institution Press, 2010, pg. 150.



institutional inertia was strong and the preferences of major states diverged.<sup>257</sup> Still, Florini highlights the need for an intergovernmental organisation, but “one with teeth”.<sup>258</sup>

All of these problems related to the energy structure are even bigger for the electricity sector. Regarding the electricity sector, there are some international, regional, and transnational organisations. The International Renewable Energy Agency (IRENA), European Wind Energy Association (EWEA), World Wind Energy Association (WWEA), International Solar Energy Society (ISES), and International Hydropower Association (IHA) are just some examples among many others. Neither these, nor more general and powerful international energy organisations have a determining effect on the global electricity industry and separate national electricity policies on their own. In other words, despite plenty and multiplicity of organisations dealing with electricity, they serve as forums for sharing best practices, to a large extent.

The main reason for why electricity organisations have been even weaker than the general energy organisations lies in the nature of electricity. Because electricity is not subject to international trade at large scale globally, regulating it is not on top of the agenda. Furthermore, electricity is a secondary type of energy, and each country tends to generate it in its own jurisdiction, under its own sovereignty. Therefore, it diverges from the other energy sectors which have more international regulation. Nevertheless, even though these forums dealing with electricity and more powerful energy organisations dealing with general issues have remained weak for these reasons, they have contributed much to emergence of a transformation in the electricity substructure still.

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<sup>257</sup> Colgan, Keohane and Graaf, *op. cit.*, pg. 138.

<sup>258</sup> Florini, “Global Governance and Energy”, pg. 173.

### 3.3: Drivers of Change in the Electricity Sector

Alongside the current outlook of the global energy structure, the dynamics of change worth examining in order to analyse the existing and emerging trends. One of the most fundamental changes in the energy structure has been developments in the shale oil and gas technology; this has almost become a revolutionary factor both geopolitically and economically.<sup>259</sup> With developing technology in this area, inaccessible oil and gas reserves have become possible to extract, and the US has almost become a net energy exporter by increasing its production in oil and gas. The raising production caused an increase in global supply, and triggered a decline in prices. Especially around 2016, oil prices dropped below 30\$, and fell further during COVID-19 pandemic, saw negative prices in April 2020, for the first time in history.<sup>260</sup> The increasing supply in gas manifested itself as increasing LNG supply. This had powerful transformative effects towards turning natural gas into a truly global commodity, by altering the market character of natural gas from regional to global. Therefore, buyers of LNG, sought for new and more flexible contract types, such as abolition of destination clauses and long take-or-pay contracts.<sup>261</sup>

Another change in the dynamics of energy structure is increasing role and availability of renewables. This may have three major implications in the future. First, “shift towards renewables gives a great many countries the opportunity to become more self-reliant in energy terms, and less dependent on imports, with

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<sup>259</sup> Andreas Goldthau and Nick Sitter, “Conceptualizing the energy nexus of global public policy and international political economy”, Andreas Goldthau, Michael F. Keating and Caroline Kuzemko (eds.), *Handbook of the International Political Economy of Energy and Natural Resources*, Cheltenham, Edward Elgar Publishing, 2018, pg. 27.

<sup>260</sup> “US oil prices turn negative as demand dries up”, *BBC News*, April 20, 2020, <https://www.bbc.com/news/business-52350082#:~:text=The%20price%20of%20US%20oil.world%20have%20kept%20people%20in%20side>.

<sup>261</sup> Peter Hartley, “The geopolitics of natural gas: The future of long-term LNG contracts”, Harvard University’s Belfer Center and Rice University’s Baker Institute Center for Energy Studies. October 2013. [www.belfercenter.org/sites/default/files/legacy/files/CES-pub-GeoGasLNG-103113-3.pdf](http://www.belfercenter.org/sites/default/files/legacy/files/CES-pub-GeoGasLNG-103113-3.pdf); Tim Boersma, *Energy Security and Natural Gas Markets in Europe: Lessons from the EU and the United States*. New York, Routledge Studies in Energy Policy, 2015.

clear geopolitical implications".<sup>262</sup> With decreasing or disappearing import dependency in energy, many energy importer countries will increase their manoeuvre area in politics and economy vis-à-vis their energy suppliers. Second, with decreasing scales in electricity generation, distributed and decentralised energy systems will enable a more people focused energy system to occur, with greater opportunities for livelihoods and an overall better distribution of costs and benefits.<sup>263</sup> This will create a diversification in the range of actors within the field energy, with greater participation of local governments, communities and households.<sup>264</sup> Third, cases in the World Trade Organisation regarding the energy field will increase, parallel to the diffusing renewable energy production. As countries endeavour to develop their own renewable energy technologies and production capacity, they can place local content requirements which are "a clear violation of the national treatment obligation, making them easy cases to bring".<sup>265</sup> After this brief indication of general trends in the energy structure, it is apt to return to Strange's understanding.

In Strange's understanding, power structures are not structures in vacuum; to the contrary, they are interrelated with each other, and are affected both by the changes in the other structures, and by the real world events. This means that, structures, as they were defined by Strange, are not static, but are open to change under the effects of real world events. From this perspective, she defines two major changes at the energy structure of her time as redefinition of states' energy security understanding after the 1973 oil crisis, and as the application of nuclear power to the energy sector. The former is the effect of the security

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<sup>262</sup> Caroline Kuzemko, Andrew Lawrence and Matthew Watson, "New directions in the international political economy of energy", *Review of International Political Economy*, Vol. 26, No. 1 (2019), pg. 8.

<sup>263</sup> Andy Stirling, "Transforming power: Social science and the politics of energy choices", *Energy Research and Social Science*, Vol. 1 (2014), pp. 83–95.

<sup>264</sup> Kuzemko et al., op. cit., pg. 14.

<sup>265</sup> Meyer, op. cit., pg. 399.

structure since it was created by the real world events occurred in the security structure (1973 Arab-Israeli War). The latter was created by the effects of developments in the knowledge structure about application of nuclear technology to electricity generation in nuclear power plants.<sup>266</sup> However, two more changes can be added to this picture to reflect the contemporary changes. The third change emerged parallel to the changes in the global knowledge structure as a sensitivity to environmental and climatic degradation and global warming, as stated above, while the fourth emerging as a consequence of interactions between global knowledge and finance structures towards neoliberalism and liberalisation, that is application of market principles to the electricity sector. The transformation in the organising principle of the electricity sector was borne by this last change.

Uniquely, for the first time in history, the energy structure is changing as a result of simultaneous changes in two primary structures, and is facing with two comprehensive changes at the same time (dual transition). One comprehensive change is occurrence of new environmental standards in the energy (and particularly in electricity) sector, such as the increasing weight and legitimacy of renewable energy resources. Everywhere in the world, not only environmentalist circles, but increasingly more governments and private companies are opting for renewable energy resources in their investment and consumption preferences. Surely, this trend is changing the world as well as the second comprehensive change. The second comprehensive change is globally diffusing trend to liberalise the electricity markets which has been publicly-owned traditionally. It brought a new organising principle to the electricity industry, and everything related to this industry started to be organised in accordance with this new organising principle, electricity liberalisation.

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<sup>266</sup> Karlsson-Vinkhuyzen, *op. cit.*, pg. 204.

What triggered this latter change, electricity liberalisation, at a global scale was a series of changes in the primary power structures. The finance and knowledge structures were reshaped by a variety of ideological, economic, and technical factors such as the global neoliberal turn, improvement in the economic theory, or construction of more efficient natural gas and renewable energy plants in smaller scales. These caused a transformation in the organising principle of the electricity sector, and led to liberalisation. This thesis explores the political economic factors behind this change from a structural point of view, and will benefit particularly from finance and knowledge power structures. Because the thesis takes Turkey's electricity liberalisation as a reflection of changes in the global power structures, drivers of change in the electricity sector will be examined from a global perspective. Thus, it will be easier to connect with the next part, global transformation in the electricity sector.

In one hand, changes at the global knowledge structure, such as global diffusion of neoliberal economic prescriptions and discovery of possible ways of establishing a market for electricity enabled and urged countries to take steps towards electricity liberalisation. On the other hand, developing trends in the global finance structure, such as promoting less state intervention in the electricity sector to increase efficiency and the need for opening electricity sector to competition, led electricity liberalisation to top of the agenda. Thus, changes which were mentioned earlier in the knowledge and finance structures created changes in the energy structure, by causing the emergence of a new organising principle. When changes like these occur in the global power structures and in the organising principles of economic sectors, the range of choices open to countries such as Turkey changes almost spontaneously as well.

This stems from two needs which developing countries such as Turkey intrinsically face with; the first need is to maintain the continuous inflow of foreign finance to sustain economic growth, and the second need, is to keep, and increase, if possible, the level of integration with the world economy. The latter

is an outcome of the former as well. When the character of finance structure or the organising principle of an economic sector evolve into another, conditions for acquiring those much needed foreign financial sources change too. Therefore, countries are structurally urged to adapt to the new rules in order to be financed. Since Turkey's case perfectly fits to this framework, global power structures will be used widely, while analysing the effects of external realm. In order to examine the effects of internal realm, complementary theoretical tools will be facilitated too.

Historically, the first organising principle of the electricity industry, 'Hail Electricity' (see Table 3.1), made the industry dependent upon concessioner companies which operated in their own authorised service areas, mostly without any competition, as detached from the others.<sup>267</sup> This period roughly began when the first commercial electricity distribution started to operate in Manhattan, New York, in 1882, with Thomas Edison installing the Pearl Street Station to lighten the homes and buildings of privileged customers such as J.P.Morgan and the New York Times.<sup>268</sup> Everywhere on the world, people met electricity for the first time in history. In economic sense, it triggered a new development block and even a new era with the comfort it brought to the daily lives of ordinary people. For these reasons, people were enamoured with electricity, and anybody who could afford it sought after network connection. The distinctive feature of the period was people's curiosity and enthusiasm about electricity usage. The market type of this period was suitable to call 'invisible', since it was practically non-existent. Except rare examples, there was only one authorised supplier in a region, and electricity competed not with electricity from another supplier, but with alternative non-electricity fuels such as coal gas or gas oil in lighting. Hence, the market, if there were any, was not an

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<sup>267</sup> I preferred using 'hail' in order to reflect usefulness of electricity as a superior lighting energy and people's eagerness to use it.

<sup>268</sup> Daniel Yergin, *Enerjinin Geleceği*, İstanbul, Optimist, 2014, pg. 378.

electricity market, but was more like a lighting fuels market. This only changed when electricity started to be used massively for industrial purposes.

The second organising principle, 'Mein Electricity' (see Table 3.1), made the industry publicly-owned and publicly-controlled.<sup>269</sup> The electricity business had been conducted by the private, and, most of the time, concessioner, companies from the beginning. Those private companies undertook necessary investments to generate and distribute electricity to their consumers in a delineated region. However, multiplying consumption purposes increased the need for economies of scale in the electricity business, and the technological developments facilitated transmission of centrally-generated electricity from remote plants. This technical and economic necessity found the necessary political environment to flourish only after the 1929 depression. Following the depression, governments had started to take over private electricity companies gradually. This inevitably created a system operator at national level, and solidified state control. During the interwar period and the Second World War, what kept the industry under control of the governments was national security concerns; later, it was the Keynesian economic prescriptions during the post-war period. In fact, neither ideological nor technological background was ready for a liberal model too. Calling this organising principle as 'Mein Electricity' is to attribute to this statist outlook of the period during which the '*reich*' (state or empire, in German) controlled everything virtually. The electricity industry was supply-focused, and there was no transparency; it was more an opaque market.

The third, and the current organising principle, 'e-Lectricity' (see Table 3.1), aims to make the industry consisting of private companies at all segments of the business, and to activate the demand side reaction against fluctuating prices. This period roughly began when the first electricity market has started to

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<sup>269</sup> I preferred importing 'mein' and 'reich' from German, in order to attribute to the rising statist and totalitarian understanding of the time.

operate in Chile, in 1982. The occurrence of this organising principle has been more of a reflection of the changes in the international political economic thoughts and practices. As the world has slipped away from Keynesianism and towards neoliberalism, a kind of efficiency fundamentalism has accompanied to the ecological dominancy of private ownership idea in utilities. The e-Lectricity principle requires transfer of initiative to the private sector, with privatisation of the existing facilities and decreasing the role of the state to regulation only. A well-functioning electricity market consists from interactions among many private participants, not only from supply side, but also from demand side. In order to achieve intense and instant interaction among various market participants, these new type of electricity markets benefit from information technologies and electronic communication extensively; this is why I preferred emphasising the first 'e' in 'e-Lectricity', by detaching it from the word. At the same time, due to high number of generators, suppliers, consumers, and mediators in the electricity market, tracing by whom what load of electricity is generated, supplied or consumed in a spidery network has become highly sophisticated. 'Whose is this electricity?' encapsulates this distinctive feature of the market pretty well. The market character seems 'transparent', since release of various data increases transparency of the market.

Table 3.1 Organising Principles in the Electricity Sector (Source: Own Elaboration)

| <b>Organising Principle</b> | <b>Distinctive Feature</b>             | <b>Market Character</b> | <b>Period</b> |
|-----------------------------|----------------------------------------|-------------------------|---------------|
| Hail Electricity            | Crowds are enamoured with electricity. | Invisible               | 1882-1929     |
| Mein Electricity            | The 'reich' controls electricity.      | Opaque                  | 1929-1982     |
| e-Lectricity                | Whose is this electricity?             | Transparent             | 1982-Cont.    |



There are four main, identifiable drivers for the emergence of the last organising principle, e-Lectricity. The first is global neoliberal turn. After decades of Keynesianism, neoliberalism gradually rose to the position of dominant economic paradigm during 1980s, as it was described in the previous part. Neoliberal transformation in the macroeconomic area brought liberalisation tendencies in sectoral policies; in this framework, it is safe to say that electricity reforms are influenced by this overall trend.<sup>270</sup> A report by the Organisation of Economic Co-operation and Development (OECD) agrees with this view and argues that these reforms occurred within a wider paradigm shift from the state ownership and centralised organisation of infrastructures to private ownership, public regulation and competition at market.<sup>271</sup> Another study of the World Bank highlights the "increasing awareness" of decision makers about the negative consequences of state ownership, among them are excessive costs, low service quality, and poor investment decisions.<sup>272</sup> Obviously, the international organisations unite on the same opinion about the effects of a broader paradigm shift on the transformation in the electricity sector.

Neoliberal restructuring did not only mean introduction of private ownership in the infrastructure industries because, regulated private monopolies were present during the late 1800s and early 1900s, particularly in the United States, much before than the neoliberal era. Therefore, in a broader sense, neoliberal restructuring in the electricity sector meant the introduction of competition and the creation of a multiplayer game in which many firms compete with each other. The economic theory claims that competition or potential competition has a disciplinary effect on the firms,<sup>273</sup> and neoliberalism is enamoured with

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<sup>270</sup> Sioshansi and Pfaffenberger, "Why Restructure Electricity Markets?", pg. 39.

<sup>271</sup> OECD, "Regulatory reform in network industries", *OECD Economic Outlook*, No. 67, Paris, 2000.

<sup>272</sup> Bacon and Besant-Jones, op. cit., pg. 1.

<sup>273</sup> Günter Knieps, "Sector-Specific Market Power Regulation versus General Competition Law: Criteria for Judging Competitive versus Regulated Markets", Feredioon P. Sioshansi and Wolfgang Pfaffenberger (eds.), *Electricity Market Reform: An International Perspective*, Oxford, Elsevier, 2006, pg. 51.

the word 'discipline', as it is seen in monetary discipline and fiscal discipline advices of neoliberalism. For this reason, it can be said that the electricity sector liberalisation "is part of the wider trend toward liberalisation and the withdrawal of the state from involvement in infrastructure industries."<sup>274</sup> In addition to the ascendancy of neoliberalism, new developments in the field of economics made the unthinkable competitive markets for electricity conceivable. For this reason, Jamasb seems erroneous when he claims that liberalisation in the network dependent infrastructure sectors was not due to breakthroughs in the economic theory.<sup>275</sup> The path-breaking book *Markets for Power* was a pioneering study for electricity liberalisation and enabled energy economists to design market structures for electricity.<sup>276</sup> Developments in the economic thinking affected electricity liberalisation by providing policy makers with new policy options.

How does an invented, new policy option diffuse among different countries? At this point, policy diffusion literature offers significant explanations on how and why neoliberal structuralisation affected electricity sector by shedding light on spatio-temporal clustering of liberalisation. Simmons and Elkins claim that the adoption of a policy by the others alters the payoffs for the rest. According to them, costs and benefits of a specific policy steadily change as the choices of others create externalities.<sup>277</sup> There are two types of payoffs as material and reputational. Altered material payoffs focus on the altered material cost-benefit calculus of a specific policy adoption. As Bartolini and Drazen showed, business activity positively respond to the policy liberalisation, and when a country's foreign competitors liberalise, business activities are attracted to the places

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<sup>274</sup> Jamasb and Pollitt, op. cit., pg. 12.

<sup>275</sup> Jamasb, op. cit. pg. 14.

<sup>276</sup> Paul Joskow and Richard Schmalensee, *Markets for Power: An Analysis of Electric Utility Deregulation*, Cambridge, The MIT Press, 1983.

<sup>277</sup> Simmons and Elkins, op. cit., pg. 172.

where the business can be done more freely.<sup>278</sup> Thus, a competitor country may feel a competitive pressure to liberalise its policies in order to catch the global economic trajectory. This situation sources from the governments' desire to attract economic activity to their jurisdiction with the aim of boosting growth. In this sense, Simmons and Elkins seem right when they suggest that governments act strategically to attract economic activity into their countries to boost growth; and their policies are influenced by the policies of their most significant rivals.<sup>279</sup>

The second type is altered reputational payoffs and mainly depends on the notion of "ideational consensus" which is a potential externality because it changes the reputational payoffs. According to Simmons and Elkins, reputational payoffs work in this way:

Changes in prevailing global ideas and the practices they entail create externalities for governments as well. One of the hallmarks of the current trend toward globalization is the ascendancy of theories that emphasize market mechanisms as engines of economic growth. The spread of liberalization both reflects and buttresses the power of a neoliberal ideational consensus.<sup>280</sup>

In the case that there is an ideational consensus on a specific topic, the public condemnation for a perceived policy failure associated with deviation from the common applications in other countries is likely to be higher than a similar failure of conforming policy. Thus, "theoretical consensus on an appropriate economic model raises the intangible costs of nonconformity."<sup>281</sup> Two outstanding works of Schelling and Granovetter show that governments are

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<sup>278</sup> Leonardo Bartolini and Allan Drazen, "Capital-Account Liberalization as a Signal", *American Economic Review*, Vol. 87, No. 1 (1997), pp. 138-154.

<sup>279</sup> Simmons and Elkins, op. cit., pg. 173.

<sup>280</sup> Ibid.

<sup>281</sup> Ibid.

sensitive to the number or proportion of the other governments which have adopted a specific policy.<sup>282</sup>

As the second driver of change in the organising principle, electricity liberalisations were popularised mostly by the international financial organisations such as the IMF, the World Bank or the European Bank for Reconstruction and Development (EBRD) in their relationships with the borrower countries. Alongside financial institutions, sector-specific international organisations such as the World Energy Council (WEC) and the International Energy Agency (IEA) urged countries to follow the trend, too. In the academic literature, the effect of international organisations on the electricity liberalisations is a well studied topic and there is a consensus. For example, Jamasb says that international development agencies had engaged in promotion and implementation of electricity sector reforms.<sup>283</sup> Bacon and Besant-Jones describe it in a more detailed way:

Intertwined with these country-related conditions are the actions of the International Financial Institutions, which have been advocating and encouraging both macroeconomic and sector reform. Lending policies often have had a “carrot and stick” structure, in that lending for institutional reform, which is often bundled with lending for investments to upgrade supply facilities that are needed to support the reformed power market, will attach conditions related to achievement of targets for release of tranches of the loan.<sup>284</sup>

Particularly the World Bank has played a crucial role in popularising the idea of electricity reform alongside the other international organisations. In 1992, the Bank changed its lending policy in electricity sector from project lending to

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<sup>282</sup> Mark Granovetter, "Threshold Models of Collective Behavior", *American Journal of Sociology*, Vol. 83, No. 6, 1978, pp. 1420-1443; Thomas C. Schelling, *Micromotives and Macrobehavior*, New York, W.W. Norton, 1978.

<sup>283</sup> Jamasb, op. cit., pg. 14.

<sup>284</sup> Bacon and Besant-Jones, op. cit., pg. 2.

policy lending and required borrowing countries to restructure their electricity sector away from single public utility monopoly.<sup>285</sup>

Regarding the diffusion of electricity liberalisation policy which was backed by the international organisations, two main types of players can be identified: Institutional tutors and eager pupils. The former group consists of people who establish thresholds, provide templates and encourage national authorities for more reforms, while the latter is local elites consisting of technocrats eager to learn Western models to catch up with the developed countries.<sup>286</sup> At this point, it seems fair to claim that insistence of the international organisations on electricity liberalisation sources from normative beliefs, rather than clearly documented and unanimously accepted universal realities. About this belief, Yi-chong says that it was strong enough for some economists to insist that a perfectly designed market model for reform could be implemented, regardless of the political and economic systems or development stages of the country and the industry.<sup>287</sup> The effects of the international financial organisations can thus be considered as reflections of the changes in the international financial structure on the developing countries, and be analysed by utilising the financial structural power concept of Susan Strange.

However, the approach of international financial organisations was also criticised in the literature because, the World Bank and the IMF had 'one size fits all' approach to the reform. The standard template which was based on fallacies of a perfect market system rather than political economic realities was imposed to countries, and was doomed to fail even just for this reason. Yi-chong classifies

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<sup>285</sup> *The World Bank's Role in the Electric Power Sector: Policies for Effective Institutional, Regulatory and Financial Reform*. Washington D.C., The World Bank, 1993.

<sup>286</sup> Wade Jacoby, "Tutors and pupils: international organizations, central European elites, and Western models", *Governance*, Vol. 14, No. 2, 2001, pp. 169–200.

<sup>287</sup> Xu Yi-chong, "The myth of the single solution: electricity reforms and the World Bank", *Energy*, Vol. 31 (2006), pg. 812.

the three interrelated narratives of electricity liberalisation which the international organisations repeated as the grand one about market, a more specific one to electricity, and a broader one for international comparison. Then he explains that the grand story assumes that the competitive forces will yield the best allocation of economic resources; the story about electricity claims that electricity is a typical commodity which should be bought and sold at the market; and, the third story about international comparison defends that the electricity systems around the world are physically and operationally very similar, so the similar templates of reform can be applied everywhere.<sup>288</sup> As parallel to this taxonomy, the grand narrative corresponds to the global neoliberal turn, the specific one corresponds to application of neoliberalism to the electricity sector, and lastly, the broader one corresponds to the endeavours of international financial organisations and what policy diffusion literature defends. However, actual world cases show that each country has to follow its own way.

After mentioning the ideological/theoretical background, it should be highlighted that without appropriate advancement in the material and technological background, liberalisation would not have been possible. Strange used application of developments in nuclear technology to the nuclear power plants in order to exemplify the effects of change in the knowledge structure in the form of technology and know-how. In this vein and similar to that, the third driver of electricity liberalisation was in the field of technology, and made two fundamental effects, one in generation segment, and one in information and data processing technologies. Firstly, new developments in the plant technology shook basics of the generation segment. It both decreased the necessary economic scale for a profitable business, and increased the availability of plants. The new plant types, such as Combined-Cycle Gas Turbine and solar power plants allowed investors to construct plants at smaller scales while maintaining the benefits of economies of scale at the same time. Thus, an important barrier

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<sup>288</sup> Ibid., pg. 803.

to entry was broken in a way to weaken the positions of incumbents.<sup>289</sup> In addition, the new type of natural gas plants increased efficiency and flexibility in electricity generation significantly. This new type of plants can begin generating electricity in 10 minutes and reach to maximum capacity in 60 minutes.<sup>290</sup> The rapid response capability is very significant in terms of balancing the supply-demand fluctuations which are most of the time caused by the intermittency in the production of renewable energy resources.

Technological developments in the communication and data processing systems enabled economists and system operators of energy infrastructure to create better market designs as well. This was particularly vital for an electricity market to exist, because electricity technically requires instantaneous balance between demand and supply at every second in real time. The trade among numerous suppliers, distributors and retailers is highly complex, and was impossible to conduct without developed communication and data processing systems. The more liberal market model becomes, the more complex market design needed. In an illiberal electricity market, balancing supply and demand is just a technical issue, and is realised at a national or regional dispatch centre, most of the time. In a single buyer agency model, the total demand is represented by the single buyer, and generators compete with each other to sell their generation to it. However, it requires an incredibly complex communication and data processing system at a completely free market depending on real time competition. Each generator struggles to remain within the merit order to sell its electricity, and with the participation of demand side, the system requires developed software to produce prices for the determined time periods.

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<sup>289</sup> Sioshansi and Pfaffenberger, op. cit., pg. 39.

<sup>290</sup> Russell Ray, "Combined Cycle: The Preferred Option", *Power Engineering*, March 2015, pg. 3.

Fourthly, electricity liberalisation, by its nature, presented economically beneficial opportunities, especially for developing countries, and these opportunities were embraced by many governments enthusiastically. At this point, it is important to note that the former three drivers of energy liberalisation can be labelled as 'exogenous' drivers but, this fourth driver of electricity liberalisation is an 'endogenous' one. It is endogenous in two senses. Firstly, it is endogenous in the economic sense since it is economically motivated directly; according to economics literature, behaviour of actors, motivated by economic reasons are regarded as endogenous. Secondly, it is endogenous because it is about the domestic realm of liberalising countries. In addition, it is also more diverse and this diversity springs from different positions of developed and developing countries in the process of liberalisation. Jamasb puts forward that the main motives behind electricity reforms were different in developed and developing countries. The former group of countries aimed to improve the performance of relatively efficient systems, but for the latter group, reform was needed due to the burden of price subsidies, low service quality and collection rates, high network losses.<sup>291</sup> Now, it is suitable to look at some global examples by following this distinction of Jamasb between developing and developed countries, before moving to the Turkish case.

### **3.4: Global Transformation in the Electricity Sector**

The liberalisation process in some selected countries will be examined at this stage. Those countries will be Chile, China, Greece, Britain, Germany, Japan, and the United States. Chile is the first country where the neoliberal structuralisation was tested for the first time, including the electricity reform. China is significant since it is the country with highest electricity consumption, and due to its special rising power status in the global power structures. Greece is a country with similar characteristics with Turkey, and its neighbour as well. Britain is the second country which liberalised its electricity sector, and the first

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<sup>291</sup> Jamasb, op. cit., pg. 14.



major power in the global power structures. Germany represents the continental Europe and the directives and policies of the European Union to which Turkey entails great importance due to accession negotiations. Japan represents the electricity liberalisation policies at a different part of the world; thus, structural effects of the changing energy structure will be seen in a better way. Lastly, the United States, is the core power of the global power structures, especially that of the dollar-based finance structure, and for this reason, examining electricity market liberalisation in the United States has vital importance in terms of understanding the mechanisms at the heart of the 'storm'. By looking at these global examples, the Turkish case will be placed at a structural framework more easily.

### **3.4.1: Selected Developing Countries**

#### ***Chile***

Chile was the first country liberalising its electricity sector. It also "was hailed as a highly successful example of electricity reform in a developing country and a model for other privatisations in Latin America and around the world."<sup>292</sup> The Chilean electricity liberalisation was a part and reflection of the general trend in the Chilean economy. After Salvador Allende was overthrown by Augusto Pinochet by a coup, the new government opted for neoliberal policies. In this situation, elite recruitment targeting Chile was highly influential as well as poor economic performance of the country (see Chapter 2.1.2). During the socialist administration of Allende, public companies accounted for almost 40% of the GDP, and because of their losses which reached to 8% of the GDP, the government's budget deficit hit to 13% of the GDP.<sup>293</sup>

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<sup>292</sup> Michael Pollitt, *Electricity Reform in Chile: Lessons for Developing Countries*, Center for Energy and Environmental Policy Research, Massachusetts Institute of Technology, 2004, pg. 2.

<sup>293</sup> Ibid.

Prior to reform, “Chile’s electricity utilities were in a mess”; due to high inflation, high fuel prices and price controls on final prices, and due to lack of investment under public ownership.<sup>294</sup> The new Chilean government wanted to restructure the sector in order to introduce economic ‘discipline’, a concept which neoliberalism is in love with. The IEA defines main pillars of the Chilean liberalisation policy as “private initiative, competitive markets and the subsidiary role of the state.”<sup>295</sup> After a series of neoliberal reforms in this framework, the country sustained a growth rate above 6% during 1990s every year.

The first steps to reform were establishment of National Energy Commission in 1978, and adoption of the Electricity Act, in 1982. These steps, beginning from 1981, led to vertical and horizontal disintegration in the sector, and followed by some degree of commercialisation as a by-product of privatisation, though it was limited; a wholesale power trading mechanism was created parallel to these developments. A more comprehensive privatisation could only begin four years later, in 1986, and commenced in a way to mark a watershed for the electricity sector globally; it was completed in 1998. At the same year, two regional electricity markets were created, one for northern parts of the country, one for the central and southern parts. The plants were required to report their capacity and marginal cost on an hourly basis; these constituted a spot price for electricity as well. This price was also accepted as the regulated price, and was fixed for every six months in April and November.

In the transmission segment, negotiated third party access method was preferred, but it was mandatory for the transmission company to provide generators with the capacity if it was available. In this segment, as different

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<sup>294</sup> *Electricity Markets in Latin America: Regional Integration and Competition Issues*, Latin American Competition Forum, OECD, 2014, pg. 8.

<sup>295</sup> *Chile Energy Policy Review 2009*, International Energy Agency, 2010, pg. 14.

from many other examples, there were more than one transmission companies, some national and some zonal. There are no restrictions against foreign ownership, and the transmission segment has been owned by foreign investors starting early 2000s, mainly due to its fixed rate of return.<sup>296</sup> For distribution companies, a tariff which was unrelated to the actual costs was created; thus, the distribution companies were perfectly incentivised to decrease costs. The distribution companies sell electricity to residential consumers directly. The regulated tariff is still created for consumers whose connection capacity does not exceed 5 MW, but the consumers can choose to be free consumer if they have 500 kW connection capacity.

The 1982 Electricity Act brought new institutions to the country. The National Energy Commission was responsible for advising the Minister of Economy on the electricity policy, for the setting of regulated distribution charges, and for designing long term strategy. A Superintendent of Prices of Electricity and Fuels was responsible for collecting data about the sector, handling of customer complaints and the implementation of service quality fines, and for customer compensations. The Minister of Energy formally imposed the regulated tariffs and retained control over the issuing of rationing decrees during periods of drought when there was a shortage of hydro-electric generating capacity.<sup>297</sup> Chile's Competition Regulator, which had a regulated utilities division, was responsible for ex-post inspection in the sector. The concepts of regulated and free consumers were introduced in 1982, with the original liberalisation law, and consumers with a demand more than 2 MW were freed to contract directly with the generators. This initial market structure was changed later three times in 1999, 2004, and 2005. With a change in 2007, utilisation of renewable resources was incentivised.

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<sup>296</sup> Gonzalo Jiménez, *Electricity regulation in Chile: An overview*, Thomson Reuters Practical Law, [https://uk.practicallaw.thomsonreuters.com/w-019-3060?transitionType=Default&contextData=\(sc.Default\)&firstPage=true](https://uk.practicallaw.thomsonreuters.com/w-019-3060?transitionType=Default&contextData=(sc.Default)&firstPage=true) , accessed on January 22, 2021.

<sup>297</sup> Pollitt, *Electricity Reform in Chile*, pg. 6.

Chile, as the first country which started to liberalise its electricity market, was more like an experiment, but it turned out a success in terms of electricity liberalisation. From a structural power point of view, Chile presents a perfect example for theoretical explanations. As a result of elite recruitment process, an economic circle was educated according to neoliberal beliefs and ideas in Chile. Later, following a domestic political economic crisis, the country had to adapt to the newly-developing neoliberal framework in the finance and knowledge structures, in order to obtain finance. Once the country agreed to follow a neoliberal path, much needed financial resources flew to the country in global finance structure spontaneously. After almost 40 years of this neoliberal transformation, Chile is one of the clearest examples for the transformative effects of global power structures.

During the first 20 years of reform, electricity prices in Chile decreased almost 30% in real terms, according to a study.<sup>298</sup> In the electricity generation in Chile, hydro power, non-hydro renewables, natural gas, coal, and petroleum-based capacity has approximately 26,5%, 16,8%, 16%, 36,5%, and 2,4% shares respectively.<sup>299</sup> In Chile, per capita electricity consumption is above 4.1 MWh, total demand in the country is around 75 TWh, and 60% of this total is consumed by the industrial sector.

## ***China***

China is the country having the largest installed power and electricity generation in the world; for this reason, reflections of changing energy structure on the Chinese electricity sector is significant. China's electricity generation was 1182 TWh in 1999, it skyrocketed to 6880 TWh in 2019, it increased 5,82 times in 20 years.<sup>300</sup> Hence, sufficient investment was the focal of the Chinese

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<sup>298</sup> Ibid., pg. 9.

<sup>299</sup> Data was compiled from the IEA database.

<sup>300</sup> The data was compiled from the IEA database.

electricity policy, rather than economic efficiency and environmental protection. However, after having reached to a maturity level in the electricity sector, and as a response to increasing environmental degradation, China initiated electricity restructuring. In 2015, the government declared its intention to open a wider space for market forces in the electricity sector.

China's intentions to attract private investment to electricity generation sector goes back to 1980s; in 1984, the vertically integrated state owned power company were unbundled. Private companies were tried to be attracted to the sector through guaranteeing a fixed rate of return for investment. However, the first meaningful and targeted steps were taken in 2002, with the policy document which is known as "Document No 5". In the framework of this document, decentralisation of policy making in electricity became a part of restructuring; the central government transferred decisions about plant technology and amount of installed power to the provinces, to some extent. Provinces administratively determined hours during which a plant would operate, not through market mechanism. End user prices too were determined administratively as well as payments to be made to the generators and operators of physical network. In addition, each province endeavoured to exploit its own resources, and this decreased interprovincial electricity trade.

However, this system started to change considerably in 2015, with the Document No 9. The IEA deems this document as a second milestone for China's electricity sector restructuring.<sup>301</sup> With this document, tariffs for transmission and distribution were separated, and a revenue cap model was preferred for the companies operating in these segments. Electricity trading infrastructure was established as regional markets, and wholesale electricity prices started to be decided between generators and large consumers through negotiations.

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<sup>301</sup> César Alejandro Hernandez and Xiang Li, *Power Sector Reform in China: An International Perspective*, IEA, 2018, pg. 8.

Distribution and transmission infrastructure was divided into several companies. Interprovincial and interregional trading was improved, and this increased the level of implementation of market mechanisms. The increasing interregional and interprovincial electricity trade is seen as one of the main elements of power system transformation in China, according to the IEA.<sup>302</sup> Yet, retail prices are still administratively decided, and market-based pricing mechanism is not fully functional. Cross-subsidies are expected to disappear in this process, in time. Especially high rates are paid by the industrial consumers and, inefficiently low price levels are reflected to households.<sup>303</sup>

“China’s power sector reforms represent perhaps the world’s largest industrial reform program”.<sup>304</sup> For this reason, China’s electricity liberalisation was characterised by its incremental change, more than everything. With this attribute, it differs from most of the other developing country examples which experienced a more rapid electricity liberalisation under global power structures. Alongside this difference, China presented similarities with the other developing countries in terms of its motivations for electricity liberalisation. One of them was the country’s desire to attract private and foreign investments to the power generation to meet high demand growth.<sup>305</sup> In addition, power sector liberalisation designed to serve two purposes simultaneously. First was distancing central government from provincial issues and from management and financing of the new investments. Second, because the power sector was one of the most corrupt sectors in the country, rationalising the price

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<sup>302</sup> *China Power System Transformation: Assessing the benefit of optimised operations and advanced flexibility options*, IEA, 2019, pg. 2.

<sup>303</sup> Hernandez and Li, op. cit., pg. 26

<sup>304</sup> Christian Romig, “Powering the Dragon: How China’s Power Sector is Evolving”, *Power*, February 1, 2019, <https://www.powermag.com/powering-the-dragon-how-chinas-power-sector-is-evolving/>.

<sup>305</sup> Philip Andrews-Speed, “Reform Postponed: The Evolution of China’s Electricity Markets”, Fereidoon P. Sioshansi (ed.), *Evolution of Global Electricity Markets: New Paradigms, New Challenges, New Approaches*, London, Academic Press, 2013, pg.533.

mechanisms and increasing efficiency.<sup>306</sup> With these two factors combined, China not only was directed to electricity liberalisation structurally, but also endeavoured to functionalise it in accordance with its domestic problems.

Currently, in the electricity generation of China, coal, hydroelectricity, wind, nuclear energy, natural gas have 71,1%, 19%, 6%, 8,2%, and 5,1% shares, respectively, according to IEA data.<sup>307</sup> In the country, per capita electricity consumption is around 4,9 MWh, total demand in the country is around 6.833,1 TWh, and only 25% of this total is consumed by the industrial sector. The entire population have access to electricity, and this is the biggest achievement of the Chinese electricity policy.

### **Greece**

Greece's electricity liberalisation is very much like that of Turkey and has been shaped by the economic crises and pragmatic concerns of the Greek politicians, not by ideological motives. Particularly, privatisations started following Greece's debt crises which led to bailout packages throughout 2010s. Therefore, Greece's plan to privatise its state-owned Public Power Corporation initiated almost with the same mechanism with Turkey: conditionality policy of troika of lenders which consisted of the IMF, the European Central Bank, and the European Union which lent Greece on the condition of austerity and privatisation of public assets.<sup>308</sup> If liberalisation is one the of the main pillars of electricity policy in Greece, one of the other main policy targets of the governments is to connect the electricity network in the Greek islands which mostly rely on diesel for power

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<sup>306</sup> For a more detailed analysis on this issue, see: Ling Chen, "Playing The Market Reform Card: The Changing Patterns of Political Struggle In China's Electric Power Sector", *The China Journal*, Vol. 64 (2010), pp. 69-95.

<sup>307</sup> The data was compiled from the IEA database.

<sup>308</sup> Karolina Tagaris, "Greece prepares for privatisation of biggest power company", *Reuters*, July 9, 2014, <https://www.reuters.com/article/greece-strike/update-1-greece-prepares-for-privatisation-of-biggest-power-company-idUKL6N0PK4FJ20140709>, accessed on January 22, 2021.

generation to the national electricity network, as long as it is technically possible.<sup>309</sup> This target is expected to be achieved in 2023 or in 2024.

Before liberalisation, Greece's Public Power Corporation, which was established in 1950 and was organised as a vertically-integrated state owned public enterprise, had almost one hundred percent share in retail market, owned all of the power lines in the country, and hold 49% of the country's system operator. Therefore, Greece had to unbundle the incumbent public monopoly company to create room for private investors which needed competition to exist. Main part of the electricity reforms started in 1999 in Greece, with the intention to accommodate the energy package of the EU, and the restructuring began with the Law on the Liberalisation of the Energy Market and on the Regulation of Issues Related to Energy Policy (No 2773/1999). This law was updated with another law in 2003, in order to encourage higher levels of private investment in the sector.

First of all, transmission segment was separated from the Public Power Corporation, later, the distribution segment was incorporated to transmission segment, and the Hellenic Transmission and Distribution System Operator was formed, and is currently run by the Independent Transmission System Operator. The wholesale electricity market was started to operate as a mandatory pool in 2005 but, many revisions were made regarding the market design in time. The market is monitored and inspected by the Regulatory Authority for Energy, which was established in 1999 legally, but could only be formed one year later, in 2000. It has similar powers and responsibilities with the other similar bodies in the other liberalising countries.

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<sup>309</sup> Asteroula Michou, *Energy Markets' Liberalization in Greece*, MSc. Thesis, Erasmus University of Rotterdam, 2009, pp. 19-20.



In 2011, the electricity sector was restructured and almost the same system with Turkey was adopted. Public Power Corporation remained in generation segment, Hellenic Electricity Distribution Network Operator was created, transmission segment was maintained, and independent system operator was formed. The Greek state has maintained its control and ownership over all these four companies. Persisting dominance of public companies create hesitance in private investors about investing in the Greek electricity sector.<sup>310</sup> The public electricity generation company has 75% share in total consumption still. However, the IEA regards Greece's reform programme promising in terms of future.<sup>311</sup> At the beginning of 2011, the government introduced Social Household Tariff to protect vulnerable consumers who became even more open to risks borne by energy poverty during the economic crisis; these people were sold electricity with 40% discount up to 5000 kWh per year. In addition to this programme, the Greek governments keep household electricity prices low for sustaining electoral support, as the Turkish governments do.<sup>312</sup> If the free consumers do not buy electricity from a supply company, public power company provide them with electricity with regulated tariffs.

Greece's electricity liberalisation story resembles to that of Turkey, both in structural and practical senses. Under the effects of the global power structures such as finance and knowledge, Greece had to adapt to the organising principle of the electricity sector. However, moderate demand growth and country's EU membership protected Greece from transformative effects of global power structures by curbing pressures on the public budget borne by electricity investments and enabling governments to benefit from foreign financial resources, respectively. That is to say, Greece had enough bargaining power to sustain its policies in the electricity sector, when compared to its dependency on

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<sup>310</sup> Yeşim Reel, "A Comparison of Electricity Industry Regulation and Restructuring: Greece and Turkey", *Marmara Journal of European Studies*, Vol. 22, No. 1 (2014), pg. 70.

<sup>311</sup> *Greece 2017 Review*, IEA, 2017, pg. 11.

<sup>312</sup> Reel, op. cit., pg.77.

the global structures. However, when an economic crisis hit the country, it had to adapt to the global power structures, as a typical example for developing countries.

Currently, in the electricity generation of Greece, natural gas, coal, wind, oil, and hydroelectricity have 19,8%, 30,1%, 13,4%, 8,2%, and 7,5% shares, respectively, according to IEA data.<sup>313</sup> In the country, per capita electricity consumption is around 5 MWh, total demand in the country is around 53,5 TWh, and only 25% of this total is consumed by the industrial sector.

### **3.4.2: Selected Developed Countries**

#### ***Britain***

The British model is regarded as the standard textbook model, generally. The electricity liberalisation in Britain was initiated by the conservative governments in the 1980s; but it was sustained by the Labour party governments later. More specifically, it was Margaret Thatcher's neoliberal economic policy which was responsible for the electricity liberalisation in Britain, and this situation was not peculiar to the electricity sector, it was rather a part of a more extensive economic transformation. For example, the Conservative governments targeted to "enable the extension of the market and profit-making in general", with electricity liberalisation.<sup>314</sup> This desire to extend profit-making to new, unexploited areas of economic activity is also consistent with what neoliberal ideology aimed in the first place (see Chapter 2.1.1). Despite diverging ideological backgrounds, different governments opted for electricity liberalisation as an indicator of the existence of something structural

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<sup>313</sup> The data was compiled from the IEA database.

<sup>314</sup> Richard Pond, *Liberalisation, privatisation and regulation in the UK electricity sector*, Working Lives Research Institute, 2006, pg. 18.

affecting all consecutive governments in a similar way.<sup>315</sup> As it will be shown later, it was the same in Turkey as well.

Before liberalisation, Britain's electricity supply industry was like that of any other country, vertically integrated and publicly owned; the industry consisted of separate companies in England and Wales, while it consisting of vertically integrated single company in Scotland and Northern Ireland. The Central Electricity Generation Board generated all the electricity and sold to the twelve area boards, being responsible for distribution and supply. In Scotland two separate companies had done business at all segments. The tariff structure was zonal and included different elements such as charges for transmission and generation capacity, and variable costs for energy and regional losses. Newbery defends that during pre-liberalisation era, "investment planning, and particularly investment delivery, was poor, slow and costly, and there were few incentives to deliver cost efficiency", and explains the main target of liberalisation as replacing the old one with a new, "decentralised market-driven system that would nevertheless deliver secure, reliable electricity efficiently and at competitive prices."<sup>316</sup> Indeed, competitive prices seem achieved; according to Pond, "from the full opening of the market in 1998 to 2005 domestic consumers saw prices fall by between 8% and 17%. During the same period, industrial and commercial users benefited from a 30% fall in prices."<sup>317</sup>

The first step was 1983 Energy Act, which allowed area boards to buy electricity from private companies; this did not make a significant effect.<sup>318</sup> Just one year later, Turkey tried the same thing in the same way (see Chapter 4.3.1). The

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<sup>315</sup> Ibid., pg. 3.

<sup>316</sup> David Newbery, "Electricity liberalisation in Britain: The quest for a satisfactory wholesale market design", *The Energy Journal*, Vol. 26 (2005), pg. 44.

<sup>317</sup> Pond, op. cit., pg. 7.

<sup>318</sup> Ibid., pg. 3.

Electricity Act of 1989, as the first comprehensive step, formed the Director General of Electricity Supply in order to regulate the activities of the National Grid Company and the regional electricity companies, and the Office of Electricity Regulation was established as an independent body to oversee the sector, this office evolved into Ofgem (Office of Gas and Electricity Markets) later. The Electricity Act decomposed public generation and distribution companies into four smaller companies in England and Wales. The nuclear power plants were transferred to Nuclear Electric since they were not deemed sellable. Most of the plants were privatised, but the governments retained golden shares in the companies until 1995.

The national grid was transferred to the ownership of regional electricity companies which were sold to public in December 1990. The Pool, a compulsory day-ahead wholesale electricity market which represented the first phase of electricity liberalisation in Britain, was created and all generators were required to sell their generation to it, thus competition at generation segment was constituted. It was not designed as a permanent solution since the beginning, and served only in England and Wales, due to interconnector limits between Scotland and the rest of the country.<sup>319</sup> In other words, the wholesale electricity market developed in a kind of learning by doing framework in Britain as well as in Turkey and in the rest of the globe.

Competition at the supply segment started with a few thousand consumers having a demand more than 1 MW, these consumers could buy their electricity directly from the pool, but the other consumers had to buy from regional electricity companies. In 1994 and 1998, this limit was lowered, and all consumers were free by mid-1999. During the process, privatisation improved the efficiency, as some studies suggest. According to Newbery and Pollitt, “labour productivity doubled, real fuel costs per unit generated fell dramatically

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<sup>319</sup> Ibid., pg. 6.

(even in the publicly owned nuclear company), and substantial new investment occurred at considerably lower unit cost than before privatisation.”<sup>320</sup> In March 2001, the system took the name New Electricity Trading Arrangements (known as NETA), and later, in April 2005, changed its name into British Electricity Trading and Transmission Arrangements (known as BETTA) with a new framework which united the electricity market in Scotland with that of Wales and England. In the new system, participation at the wholesale electricity market became voluntary, bilateral contract markets remained, and forward markets went on to produce price signals.

The electricity liberalisation in Britain was more like a cause of change in the global power structures, rather than an outcome of the change in these structures. After electricity liberalisation was first tried in Chile, Britain opted for starting restructuring its electricity sector with normative, ideological approaches about superiority of neoliberal applications. Alongside normative motivations, cost efficiency of the electricity sector targeted to be improved through competition in the market. The British experience showed that major powers in the global power structures, opted for electricity liberalisation with more normative motivations, rather than pressing practical concerns such as meeting the investment necessity or solving macroeconomic problems, in a pioneering way.

### ***Germany***

Germany is one of the most influential countries having an impact on the energy policies of the other countries at a global scale, not only in terms of financial and technical aspects, but also in terms of organisational and regulatory aspects. IEA, by agreeing with this view, regards Germany as an indicator of trends affecting the continental Europe especially.<sup>321</sup> This is why having a basic

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<sup>320</sup> Newbery, “Electricity liberalisation in Britain”, pg. 52.

<sup>321</sup> *Germany 2007 Review*, IEA, 2007, pg. 7.

understanding about the German electricity liberalisation is valuable to comprehend the changes in the global energy structure.

In Germany's reform efforts, a series of drivers were influential. The EU's energy packages urging member countries to liberalisation and the expansive market strategies of large German network companies were two of them.<sup>322</sup> Prior to liberalisation, there were vertically integrated regional monopolies and municipal companies in Germany. In generation and supply, there was a coexistence of public, private, and mixed-economy enterprises, and the electricity supply industry of the East Germany joined this complex system after fall of the Berlin Wall.<sup>323</sup> During the pre-liberalisation era, eight companies produced 80% of electricity, they also had transmission lines and territorial monopoly rights; 80 regional supply companies generated 10% of total electricity generation, and the remainder was realised by the local municipal plants. Yet, following the initiation of liberalisation, an intense process of mergers and acquisitions took place, and the number of influential actors at the market decreased. Germany's electricity sector evolved from a "fragmented to a concentrated structure", as a result of reform.<sup>324</sup> This situation is consistent with the above-mentioned view about the role of large German companies.

The electricity liberalisation in Germany started in 1998 with voluntary agreements between associations of power producers and the industry in order to eliminate the need for regulation regarding the third party access, as an outcome of the EU's First Energy Package (1996) which supported regulated third party access system, rather than negotiated third party access. In response to the package, the country adopted National Energy Act in 1998, and regional,

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<sup>322</sup> Torsten Brandt, *Liberalisation, privatisation and regulation in the German electricity sector*, Wirtschafts- und Sozialwissenschaftliches Institut and Hans Böckler Stiftung, 2006, pg. 6.

<sup>323</sup> Ibid., pg. 3.

<sup>324</sup> *Germany - Regulatory Reform in Electricity, Gas, and Pharmacies*, OECD, 2004, pg. 8.

vertically integrated monopolies were unbundled in production and transmission segments. However, with the Second Energy Package of the EU (2003), a more comprehensive regulatory attitude was preferred. This resulted a new type of historical Energy Industry Act (*Energiewirtschaftsgesetz*) governing grid access and transmission fees for electricity and gas, in 2005, and the country elected legal unbundling of monopoly networks, in accordance with the EU standards. Transmission system was legally unbundled by July 2005, and was followed by the functional and account unbundling of distribution system operators with more than 100.000 customers. Germany does not have a single designated market operator for the entire country; load-serving entities and generators trade electricity on the European Energy Exchange, or contract bilaterally. Currently, the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway (*Bundesnetzagentur*) is responsible to ensure the liberalisation and deregulation of the electricity market, alongside its other duties in the other sectors. It is also responsible for grid regulation, systems integration, and network planning. It ensures fair energy prices to consumers, competition in the supply of electricity. Furthermore, the agency is responsible for the surveillance of wholesale energy trading.

There are wholesale, balancing, intraday, day-ahead and futures electricity markets to produce price signals in Germany. Because Germany is at the heart of European electricity system, there are more than one companies serving at the transmission segment; these companies are Amprion, TenneT, 50Hertz and TransnetBW. At the day-ahead market, for example, Germany can trade with Austria, Belgium, France, Luxembourg, and the Netherlands thanks to its central position in the continent. Despite existence of hundreds of power generators in the sector, more than half of the country's conventional electricity is generated by four large utilities: E.ON, RWE, Vattenfall and EnBW, and a quarter by the local public utilities. In other words, the four big companies enjoy a significant market power. At the distribution segment, almost 800 companies serve, and a large portion of them have less than 100.000 customers. The largest four supplier companies have slightly less than 40% share at the supply segment.

Germany's consumers pay among the highest electricity prices in the IEA, mostly because of levies, charges and taxes, including levies to pay for renewables subsidies; taxes account for 48% of total industry prices.<sup>325</sup> The high prices are an outcome of utilisation of renewable energy at larger scale, especially as a consequence of *Energiewende* policy, which targets to transform German energy sector into a low carbon, environment friendly and reliable one.

Germany did not have a publicly-owned monopolistic organisation in the electricity sector, unlike many other countries. Plenitude of vertically-integrated regional monopolies in the sector even long before liberalisation has placed the country at a different status in terms of adaptation to the neoliberal structuralisation of the electricity sector. One of the structural factors urging Germany to electricity liberalisation was the EU's energy directives which aimed to prepare the ground for a single European electricity market. This coincided with large German companies' (such as E.ON, EnBW, RWE, Vattenfall) expansive strategies and the central government's desire to create national champions which would enlarge at European scale later. Therefore, what urged Germany to neoliberal structuralisation in electricity sector was German governments' desire to take advantage of integration in the European electricity markets, as much as efficiency gains in the supply costs, rather than attracting private or foreign investors, dissimilarly to developing country examples.

## ***Japan***

Japan represents electricity liberalisation at a different part of the world, and can be used to observe how changes in the organising principle of electricity sector affected that part of the global energy structure. The electricity liberalisation in Japan started in mid-1990s, as parallel to global examples. One of the main motivations underlying electricity liberalisation in Japan, where the electricity prices have been and still are the highest, was improving cost

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<sup>325</sup> *Germany - Regulatory Reform in Electricity, Gas, and Pharmacies*, OECD, 2004, pg.127.



efficiency of the country's electricity sector; studies show that this goal was reached partly.<sup>326</sup> Another significant motivation for liberalisation was energy security concerns; the Japanese governments wanted to build up a more diversified and oil-independent power generation sector.<sup>327</sup>

Historically, Japan's electricity industry consisted of many companies serving their localities. Following a devastating earthquake in 1923 and during the Second World War, electric utilities were nationalised by the Japanese governments; but when the Americans became able to influence the domestic affairs of the country after the Second World War, national electricity system was decomposed into ten vertically integrated companies (Hokkaido, Tohoku, Tokyo, Chubu, Hokuriku, Kansai, Chugoku, Shikoku, Kyushu, and Okinawa Electric Power Companies) which were privatised at a relatively early stage in comparison to the other global examples. However, since these companies were monopolies in their own regions, it was nothing about competition and liberalisation. Furthermore, these companies, for historical reasons, used two different frequency standards, the northern Japan used 60Hz while the southern part of the country using 50Hz. This created significant setbacks for transmission and trade of electricity at the national level.

The first step was adoption of Electric Utilities Industry Law, which enabled independent power generators to enter into the sector, in April 1995. This was followed by another reform step in 1999, and high-voltage consumers having 2 MW contracted consumption were allowed to buy their electricity freely. A third sector reform came in the year 2003, the retail market was opened to competition, and the free consumer limit was decreased to 50 kW. In this phase of reform, most importantly, according to Tokyo Electric Power Company, Japan

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<sup>326</sup> For an example, see: Miyuki Taniguchi, "The Impact of Liberalization on the Production of Electricity in Japan", *Procedia Economics and Finance*, Vol. 5 (2013), pp. 712-721.

<sup>327</sup> *Japan- Regulatory Reform in Electricity*, OECD Country Studies, OECD, 1998, pg. 4.

Electric Power Exchange (JEPX) was established to encourage more active and intense electricity trading.<sup>328</sup> In the fourth phase, a kind of fine tuning was realised regarding the positions of household consumers in the electricity market. A fifth phase started upon the effects of the great earthquake in 2011. The earthquake and tsunami in 2011 created inerasable effects on the Japanese electricity sector in which the share of nuclear energy dropped swiftly, and fuel mix of the country's electricity generation shifted towards biomass, liquefied natural gas, and coal. After the earthquake, the Japanese government created a new reform plan consisting of three stages.

The first stage of the fifth phase reform package, approved in 2013, established a new institution called Organization for Cross-regional Coordination of Transmission Operators, an independent body which was responsible for gathering information about supply, demand, and the structure of the electricity market. It also incentivised enhancing national electricity transmission infrastructure, and adjusted the market conditions to create flexibility in the supply of electricity. The second stage, approved in 2014, introduced a new licensing system and intraday power market, and fully liberalised entry into retail segment. Thus, household customers were freed from buying electricity from local utilities and competition at the segment of supply strengthened. This is regarded as the final step in electricity supply liberalisation in Japan. During this stage, in order to protect consumers from price increases, companies had to take approval of Ministry of Economy, Trade, and Industry for their tariffs. In June 2015, the third stage was approved. During this stage, the segments of distribution and transmission were completely unbundled from generation activities to create better conditions for third party access to the network.

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<sup>328</sup> *Liberalization of the Electric Power Market*, Tokyo Electric Power Company, <https://www.tepco.co.jp/en/corpinfo/ir/kojin/jiyuka-e.html>.

Main motivation behind Japan's electricity liberalisation was triggering economic growth through competition and efficiency gains in the electricity sector which was perceived as an obstacle before further growth due to electricity prices being among the highest ones in the world.<sup>329</sup> The high electricity prices are a result of Japan's geography which is poor in terms of indigenous energy resources. With the electricity liberalisation and more utilisation of renewable energy resources in a competitive manner, Japan endeavoured to solve its macroeconomic problems about economic growth, in fact. In this sense, although Japan seems sharing the same motivations with the developing countries, it only targeted to increase competition and efficiency gains, not closing a saving-investment gap which is characteristic feature of developing countries. Therefore, Japan converges with developed country examples in terms of its motivations.

Currently, in the electricity generation of Japan, liquefied natural gas, coal, hydro power, and nuclear have 35%, 33%, 7%, and %6,7 shares, respectively, according to IEA data.<sup>330</sup> In the country, per capita electricity consumption is above 7.6 MWh, total demand in the country is around 955 TWh, and 37% of this total is consumed by the industrial sector.

### ***United States***

The electricity liberalisation experience of the United States has always been watched by the others carefully; for example, the famous California electricity crisis has been debated even in the Turkish energy circles as well.<sup>331</sup> As parallel to the highly complex administrative system in the United States, policy making and regulation in the field of energy is the same too. There have been utilities

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<sup>329</sup> Ibid.

<sup>330</sup> The data was compiled from the IEA database .

<sup>331</sup> Emine Uşaklıgil, "Dikkat!.. Kaliforniya", *NTV*, February 12, 2001, <http://arsiv.ntv.com.tr/news/63242.asp>.

belonging to municipalities, private investors and the federal government in the US since the beginning, and these utilities have been organised as vertically integrated companies and been regulated most of the time. This structure has changed significantly in large parts of the country, but some parts still remain the same. The reforms generally aimed to introduce competition at wholesale market among private electricity generators.<sup>332</sup>

The Public Utility Regulatory Policies Act (PURPA) of 1978 can be regarded as the first step towards electricity liberalisation in some respects. Despite the fact that the law targeted energy conservation and greater utilisation of renewable energy resources, not deliberately targeted to deregulate the electricity market, it paved the way for non-utility independent power producers and thus monopoly of vertically integrated power companies was broken. Later, Energy Policy Act of 1992 lifted barriers before wholesale competition. Starting in late 1990s, different states followed different paths to deregulation, and every state is at a different level of deregulation. Some states have completely deregulated their electricity markets and allow all consumers to choose their suppliers while some others allow only large consumers to choose. Therefore, how electricity is traded and by whom depends upon the region of the country; in some areas municipally-owned utilities serve, in some rural areas consumers are served by customer-owned cooperatives, and some regions are served by the utilities owned by the private investors. However, vertically integrated utilities still serve in some states and regions at regulated prices without a considerable effect of free market conditions and demand side reaction. These companies are strictly regulated even in their generation activities which determine their cost level and fair rate of return.

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<sup>332</sup> Ifeanyichukwu Nworie, *The Economics of Electricity Market Reforms in Developing Countries: An African Experience and Lessons*, PhD. Thesis, University of Portsmouth, 2017, pg. 66.

This is why the IEA defines structure of the electricity industry in the US as complex and fragmented.<sup>333</sup> Indeed, existence of many institutions with overlapping duties makes the institutional organisation as if it were a spider web with many spiders on it. The Department of Energy sets general policies, Environmental Protection Agency is responsible for environmental standards, Federal Trade Commission oversees consumer protection, Federal Energy Regulatory Commission (FERC) supervises inter-state energy relations, and some other public bodies undertake other related duties. Although the FERC and the federal government encouraged states to liberalise the electricity market under their jurisdiction, the intra-state market design is decided by the states themselves. Yet, whenever a kWh of electricity crosses an inter-state border, it is supervised by the federal laws.<sup>334</sup> The transmission system is administered by the regional transmission organisations and independent system operators in a balanced way. Regional transmission organisations operate regional wholesale, capacity and ancillary services markets, and since these markets cover more than one state, they are subject to federal laws.

### **3.4.3: Assessment of Global Electricity Liberalisation**

Developments in global finance and knowledge structures created simultaneous and parallel developments in the energy structure, and ultimately caused emergence of a new organising principle (e-Lectricity) in the electricity sector due to drivers of change which can be categorised under four labels, as mentioned earlier. In accordance with the new organising principle, countries initiated electricity sector reforms by applying some sort of standard prescriptions. Yet, each national example had a considerable degree of uniqueness springing from its own domestic conditions. In this respect, there are two general types of reformers: Developed countries and developing countries. Ultimately, many of the countries from both of the groups opted for a

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<sup>333</sup> *The United States 2007 Review*, IEA, 2007, pg. 148.

<sup>334</sup> *United States Electricity Industry Primer*, US Department of Energy, 2015, pg. 24.

certain degree of liberalisation, and electricity markets in most parts of the world met with neoliberal policies and applications.

All of the Organisation for Economic Co-operation and Development members, prominent Latin American countries such as Brazil and Argentina, some of the most important Asian countries, such as Russia, China, and India, and even many African countries such as Egypt, Algeria, Morocco, Kenya, Nigeria etc., all opted for complete or partial liberalisation in their electricity sectors (see Figure 3.1). The least developed countries are not visible on the reform map, yet. Nevertheless, this diverse diffusion of electricity liberalisation contributes to and confirms the basic premise upon which this thesis depends upon. As it was mentioned in the introduction chapter, the basic premise at the core of this thesis is that the electricity liberalisation is a global structural change (see Chapter 1).

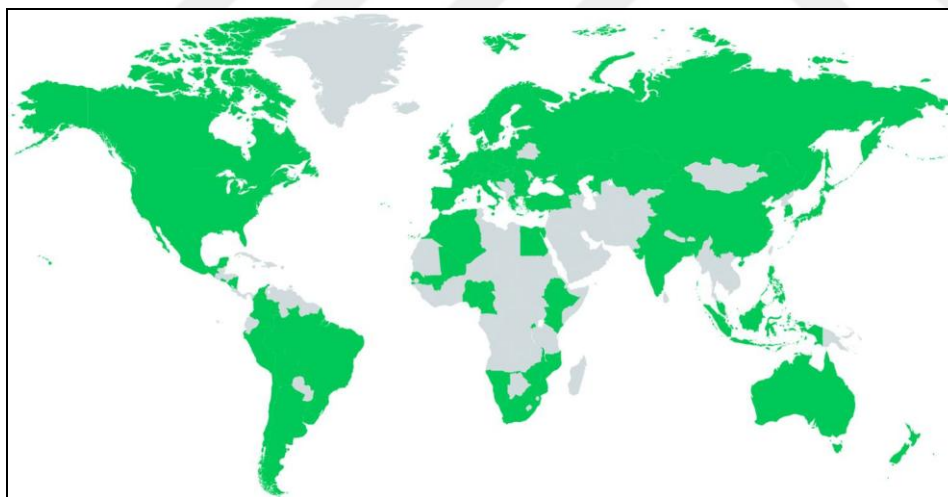


Figure 3.1 Geographical Diffusion of Electricity Liberalisation Policies<sup>335</sup>

(Source: Own Elaboration)

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<sup>335</sup> This map is only to indicate existence of neoliberal policies in different countries' electricity markets. All indicated (green) countries are not at the same level of electricity liberalisation and some countries which have started to liberalise may not be indicated. The disputed borderlines were not selected deliberately, and the thesis takes no position regarding those borders.

As it has been showed in the previous part, reform programmes in the developed countries had ideological tenets and biases, and aimed to increase efficiency of the sector by introducing competition, rather than attracting foreign investors. On the other hand, the developing countries, including Turkey, tended to liberalise in order to solve the pressing issues both in the electricity sector and in macroeconomic balances, and their pragmatic reform programmes needed a window of opportunity to be realised, most of the time. The necessary window of opportunity was sometimes an economic crisis or sometimes was a new ruling party which captured enough majorities to undertake the necessary steps in legislature and executive. For example in Turkey, an economic crisis in 2001 was followed by a change of ruling party, and electricity liberalisation began to progress freely only after that. Furthermore, in most developing countries, electricity liberalisation started under the influence and pressure of the international financial institutions, as the literature agrees on.<sup>336</sup>

In the developed countries, institutions were more powerful, and even just for this reason, the standard prescriptions derived from their experiences did not bring the same level of success in the developing world. In many of the developing countries, electricity liberalisation takes place within weak institutional frameworks, characterised by unstable political systems, interventionist governments, unreliable property rights, sided judiciary, and corruption.<sup>337</sup> Furthermore, the developing countries had not enough capital to invest in the electricity infrastructure to meet rapidly growing demand, in most cases. Therefore, in many of these countries long blackouts, poor service quality or lack of access to electricity were not uncommon. Simply, they could not shoulder the burden of capital needed to finance the sector. Yet, there are some similarities between the two groups of countries as well. For this reason, it may be better to remember the content of the electricity liberalisation in order to

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<sup>336</sup> For a cross-country econometric analysis, see: Nworie, *ibid*.

<sup>337</sup> Jamasb, *op. cit.*, pg. 23.

understand the minimum requirements of and the global structural tendencies in the process (see Chapter 2.4).

The electricity liberalisation policy should be evaluated in terms of its outcomes, in order to identify both the deficiencies in the policy and the possible paths to the future, like all political economic reforms. It is safe to put forward that regardless of the starting point or category of the country, electricity liberalisation has failed to deliver all of its expected benefits, in spite of its huge benefits to the governments, especially to those of the developing countries. It is of vital importance to note that implementing and sustaining a programme of restructuring, competition and regulation has been more complicated than initially anticipated, and has caused some disappointments.<sup>338</sup>

For electricity liberalisation, there are quite few ways to realise its promised benefits. The most important way is realisation of benefits by relying on competitive wholesale markets to provide better incentives for the pursuit of profit.<sup>339</sup> Therefore, the most fundamental aspect of competition is expected to materialise through the competition at the level of retail. In the literature, it is recognised that a significant portion of the electricity sector, distribution and transmission segments, will continue to be regulated, and the performance of generation and wholesale market will remain strictly tied to the performance of these regulated fields.<sup>340</sup>

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<sup>338</sup> Jamasb, "Between the state and market", pg. 15.

<sup>339</sup> Joskow, "Lessons Learned From Electricity Market Liberalization", pg. 11.

<sup>340</sup> Ibid.



After determining this, the next logical step is to measure the share of the upstream activity in the whole chain of value.<sup>341</sup> For instance, in the electricity sector, after a revision of literature, share of generation segment appears around 60%, and the share of distribution is roughly 25%, and the rest belongs to transmission and marketing.<sup>342</sup> In other words, all competition takes place within the boundaries of this 65-70% of the total value and causes a kind of 'deficient competition', when compared to the total value of the end product. Another reason for this limit is the advantages of vertical integration between retail and generation to a certain extent. The advantages of vertical integration leave 'stand-alone' retail companies only a minimal chance of success due to economies of scale.<sup>343</sup> Re-integration between generation and retail services has major advantages including the efficient handling of business risk and provision of security of supply.<sup>344</sup>

Among the benefits of electricity liberalisation, privatisation income has a significant place for both developing and developed countries. It should be included in the assessment, because privatisation was one of the primary objectives particularly of the developing countries, including Turkey. However, first, the concept should be clarified more theoretically. In terms of definition of the privatisation notion, the one made by Feigenbaum and Henig gives the general idea better. They define privatisation as a process including any initiatives increasing the role of market in areas previously reserved for the state, and this not only means the sale of the state assets, but also

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<sup>341</sup> Upstream activity deals with exploration and extraction of raw materials; in the electricity sector, it means power generation. Midstream activity focuses on transmission (of natural gas or electricity), and downstream activity is distribution and retail.

<sup>342</sup> Jamasb, op. cit., pg. 18; Pollitt, "Foreword: Liberalization and Regulation in Electricity Systems", pg. ix.

<sup>343</sup> Fatih Cemil Özbuğday, *The Future of Retail Electricity Market*, Ankara, Turkish Energy Foundation, 2015, pg. 20.

<sup>344</sup> Pollitt, op. cit., pg. xviii.

deregulation.<sup>345</sup> Nonetheless, the definition(s) of Miller can be even more useful for the purposes of assessment. He makes two definitions for it, one broader, and one more specific. According to the broader one, privatisation means that "relying less on government to meet people's needs for goods and services, more on private institutions".<sup>346</sup> The more specific definition says that privatisation is transfer of a function, activity or organisation from the public to the private sector with the intention of reducing the size, scope and influence of government".<sup>347</sup>

Within the framework of electricity liberalisation, a wave of massive privatisation flooded the developed and developing countries; so, the governments of these countries acquired a plenty of income into their treasuries. The value of energy facilities were so high that when Pollitt asked "What triggered energy market liberalisation?", he answered himself as: "Developments in liberalisation more generally meant that energy markets would eventually become a focus of privatisation, if for no other reason than the huge value of state energy assets".<sup>348</sup> He proved correct. Another study of him says "energy company asset sales constituted roughly 60% of the nominal value of privatised assets in the UK, between 1979 and 1996".<sup>349</sup> Particularly Chile and Latin America, showed similar 'success' stories in privatisation, if privatisation is a success. According to a study, until 2008 financial crisis, this region had managed to earn \$220 billion from privatisation, almost 30% of global total.<sup>350</sup>

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<sup>345</sup> Harvey B. Feigenbaum and Jeffrey R. Henig, "Privatization and Political Theory", *Journal of International Affairs*, Vol. 50, No. 2, 1997, pg. 338.

<sup>346</sup> Alan N. Miller, "Ideological Motivations of Privatization in Great Britain versus Developing Countries", *Journal of International Affairs*, Vol. 50, No. 2, 1997, pg. 394.

<sup>347</sup> Ibid., pg. 395.

<sup>348</sup> Pollitt, "The role of policy in energy transitions", pg. 130.

<sup>349</sup> Michael Pollitt, "The Survey of the liberalization of public enterprises in the UK since 1979", Mitsuhiro Kagami, Masatsugu Tsuji, (eds.), *Privatization, deregulation and institutional framework*, Tokyo, Institute of Developing Economies, Tokyo, 1999, pp. 120–169.

<sup>350</sup> Saul Estrin and Adeline Pelletier, "Privatization in Developing Countries: What Are the Lessons of Recent Experience?", *The World Bank Observer*, Vol. 33 (2018), Pg. 67.

In addition to its huge revenue potential, another important effect of privatisation is the fact that it reduces the future liabilities of governments for investing into the electricity sector.<sup>351</sup> For this reason, the short term effect of privatisation is that it provides an inflow of capital into treasury, while its longer term effect is preventing an outflow of capital from the treasury. On the other hand, it is necessary to note that privatisation, especially privatisation of electricity generation facilities, is not a prerequisite for the electricity liberalisation. For example, as a developing country example, China initiated its electricity liberalisation without prioritising a massive accompanying privatisation programme in the electricity sector. The main idea behind privatisation, particularly in the countries where electricity demand grows rapidly, is increasing competition by reducing role of the state, improving efficiency by urging privately-owned facilities to the pursuit of profit, raising funds for the state budget by selling facilities to the private sector, and relieving the state budget by transferring the future liabilities for the electricity sector investments. If privatisation of generation facilities takes place too early, it may decrease the private investments in the construction of new plants. However, apart from sector-specific issues, macroeconomic performance may persuade the government to undertake privatisation. On the condition that the government has an unsustainable deficit, decision makers may opt for initiating privatisation at a relatively early stage, as the Chilean and Greek experiences showed as well. Furthermore, this type of privatisation may relieve the government from subsidising loss-making public enterprises.<sup>352</sup>

The electricity liberalisation is a choice of political economy which, in the developed countries, depends upon a normative belief about efficiency of the markets, and, in the developing countries, depends upon more pragmatic concerns such as integration with the global economy. According to Pollitt,

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<sup>351</sup> David Newbery and Michael Pollitt, "Restructuring and Privatisation of the CEGB - Was It Worth It?", *Journal of Industrial Economics*, Vol. 45, No. 3, 1997, pp. 269-304.

<sup>352</sup> Bacon and Besant-Jones, *Global Electric Power Reform*, pg. 2.

electricity liberalisation programmes are bound by two main factors in the national jurisdictions. Firstly, the extent of reforms is generally bounded by what might be possible politically; secondly, liberalisation is limited by national institutional factors.<sup>353</sup> Both of them have been exemplified with specific examples in the previous parts. For example, constitutional boundaries may allow the implementation of a specific neoliberal policy in a country while preventing in another. Since it is a political choice, the extent and depth of it is strictly tied to the political conditions in each country. For this reason, ups and downs in the electricity liberalisation cases are not uncommon, parallel to the conditions which countries face with. One of the most fundamental reasons for the effect of domestic political conditions on the liberalisation process is electricity prices. In publicly owned systems, governments are more inclined to intervene to the end user prices, especially residential prices, with the purpose of translating this intervention into net electoral gain in the domestic politics. This inclination is clearly observable in developing countries, even after liberalisation, as the Greek example showed.

As the liberalisation process progresses, electricity prices become more cost-reflective and converge with the economically efficient levels, theoretically at least. According to the economic theory, this results a net social wealth gain and every member of the society benefits. The problem is, the results are only observable in the long run, but the politicians need them in the short term under the pressure of the elections which are hold in every few years. As the prices become economically more efficient, the government subsidies or cross-subsidies will need to be removed but, this may not be happy news for some consumer groups. Economically efficient levels may correspond to tariff decrease in one instance, but to higher prices in another. If liberalisation leads a price decrease, this possibly produces no complaints; yet if it leads a price hike, erosion in the political support for the ruling party is a more likely outcome by creating a potential distributional conflict among various groups in the society.

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<sup>353</sup> Pollitt, "Foreword: Liberalization and Regulation in Electricity Systems", pg. xix.

Thus, when domestic political concerns of governments increase, government support for 'economically efficient' electricity prices may decrease. During liberalisation, apart from a possible increase in the electricity prices, covert taxation practices will need to be stopped as the determination of the electricity prices transferred to the private sector.<sup>354</sup> Joskow states that "the sector provided an attractive target for 'taxation by regulation' allowing politicians to bury the costs of these programs in regulated electric power prices".<sup>355</sup>

Moreover, vested political interests can oppose restructuring or try to take advantage of political disturbances.<sup>356</sup> In order to ensure popular backing for and sustainability of the reform, Jamasb points out, it is necessary that benefits of the reforms are passed on to consumers.<sup>357</sup> Thus, politicians can remedy the possible negative effects of the reforms, such as opposition to privatisation of public assets, to a considerable degree. Naturally, politicians always prepare for the upcoming elections by maintaining or gaining the electoral support which is affected by the electricity bills as well. From time to time, reforms seem regressing under the pressure from vote-seeking politicians, so the liberalisation process does progress with ups and downs. For this reason, politicians should not be expected to follow what seems beneficial for the country spontaneously; they sometimes may need to prioritise their own political future, as the public choice theory suggests.

In light of these explanations about the reflections of neoliberal structuralisation in the electricity sector, and with some examples from different countries' electricity liberalisation processes, Turkish electricity

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<sup>354</sup> Natural gas, but especially electricity, prices include a number of non-price elements which distort the market price. The non-price elements, most of the time, target to compensate some deficits in public spending indirectly, or to subsidise some user groups.

<sup>355</sup> Joskow, "Lessons Learned From Electricity Market Liberalization", pg. 4.

<sup>356</sup> Jamasb, op. cit., pg. 24.

<sup>357</sup> Ibid., pg. 26.

market liberalisation will be examined more easily in the following chapters. This chapter has summarised power literature and examined Susan Strange's conception of structural power, by touching upon primary power structures and the energy structure in a detailed way. It also analysed the electricity liberalisation processes in a number of countries, to understand the global patterns in the practice of electricity liberalisation. The chapter answered the question, 'how does the structural power concept relate to the energy structure?' by showing the existence of a structure in energy, albeit a relatively weaker one. The further analyses will be placed in the framework drawn in this chapter. The next chapter will give a brief outlook of Turkey's energy sector, and the conclusion chapter will compare and contrast the Turkish case with the global examples concisely.

## **CHAPTER 4**

### **ENERGY OUTLOOK OF TURKEY**

This chapter will analyse the energy outlook of Turkey by putting emphasis on coal, oil, natural gas, and electricity sectors. Yet, the section devoted to the latter will be more detailed and will include changes in the electricity market structure from a historical perspective, to prepare the ground for a comprehensive analysis which is carried at the following two chapters. The organising question of this chapter is “what is the current outlook of Turkey in energy, electricity, and in electricity liberalisation?” In a nutshell, the purpose of this chapter is to give a brief account of Turkey’s energy outlook in a concrete manner; so, it will be descriptive, rather than being argumentative. Thus, this chapter will give the reader an insight about the statistical and general energy background of the country, and reveal the indicators of stagnation in the liberalisation process concisely.

#### **4.1: Overview of the Turkish Energy Sector**

The energy outlook of Turkey, in many senses, resembles to those of many other energy-poor countries. It is highly dependent upon foreign resources in meeting the demand in the country, pays a huge amount of money to import energy, and seeks for diversifying its energy resources and routes in order to lessen the risks imposed by the energy reliance on foreign countries. In spite of these considerable problems, the country has some advantages to compensate its weaknesses. For example, it has abundant renewable energy resources contrary to its scarce fossil fuels, or, it has a strategic geographical position in terms of influencing energy geopolitics, although it does not have control over the

resources. In this respect, the most significant issue regarding Turkey's energy outlook is the country's energy dependency.

The underlying reason for Turkey's energy dependency is poorness of its geography in terms of conventional energy resources.<sup>358</sup> Except its low-quality lignite resources, Turkey has almost nothing underground literally. This becomes more visible when Turkey's fossil fuel assets are compared with the world. Turkey's shares in world coal, oil, and gas reserves are only 1,1%, 0,02%, and 0,0002%, respectively.<sup>359</sup> Even if the country's position in coal seems slightly better than its position in the other fossil fuels, the country's coal reserves are mostly low quality. Resultantly, a snapshot on the country's energy outlook highlights a very high dependency upon foreign energy sources in conventional primary energy resources.

Worsening its energy dependency, the self-sufficiency rate of the country has been decreasing. The main reason of this situation seems absence of a rapid paradigmatic shift in the contemporary energy architecture which still largely depends upon burning fossil fuels to convert energy into more usable forms, such as electricity. In 2019, Turkey produced 34.821 thousand tonnes of oil equivalent (ktoe) energy domestically, while importing 115.453 ktoe, and consuming 110.649 ktoe in total.<sup>360</sup> Thus, the country's self-sufficiency in total primary energy consumption diminished to 31,4%; this was 51,7% in 1998.<sup>361</sup>

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<sup>358</sup> The term 'conventional resources' is used to refer to fossil fuels generally. However, as utilisation of renewable energy resources has intensified and spread, usage and meaning of the term has slipped and it has included renewable resources in its meaning gradually and increasingly. In this study, the term 'conventional resources' is used in the narrower sense for the sake of clarity.

<sup>359</sup> Data compiled from *BP Statistical Review of World Energy*, BP, 2020.

<sup>360</sup> ETKB, *2020 Yılı Ulusal Enerji Denge Tablosu*, ETKB, 2021, <http://enerji.gov.tr/tr-TR/EIGM-Raporlari>, accessed on April 12, 2021.

<sup>361</sup> Ibid.; *Enerji ve Tabii Kaynaklar Bakanlığı ile Bağlı, İlgili ve İlişkili Kuruluşlarının Amaç ve Faaliyetleri*, ETKB, 2016, pg. 12.



The decline was mainly caused by the country's growing consumption, rather than collapsing primary energy production. In fact, Turkey increased its domestic energy production almost 45,3% between 2003 and 2019; and the energy consumption increased less, 41,6% (see Figure 4.1). However, energy dependency of Turkey has been so extensive that domestic production increases have not been enough to compensate the dependency. If the slopes of the linear fits of consumption and domestic production values are compared at the Figure 4.1, it is seen that the slope of consumption graph is 2762, while the same slope is only 681,49 for production. This means that primary energy consumption in Turkey grew 4,1 times faster than the growth in domestic primary energy production, between 1998 and 2019. Three sectors underlie the increasing consumption: transportation, household and services, and energy sector. The growth in these sectors' consumption are particularly high, 257,3%, 187,5%, and 207,3%, respectively.<sup>362</sup> On the other hand, increase in the energy consumption of industrial sector has been weaker than the others with 70% (see Figure 4.2).

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<sup>362</sup> ETKB, *2017 Yılı Ulusal Enerji Denge Tablosu*; ETKB, *Enerji ve Tabii Kaynaklar Bakanlığı ile Bağlı, İlgili ve İlişkili Kuruluşlarının Amaç ve Faaliyetleri*, pg. 25.

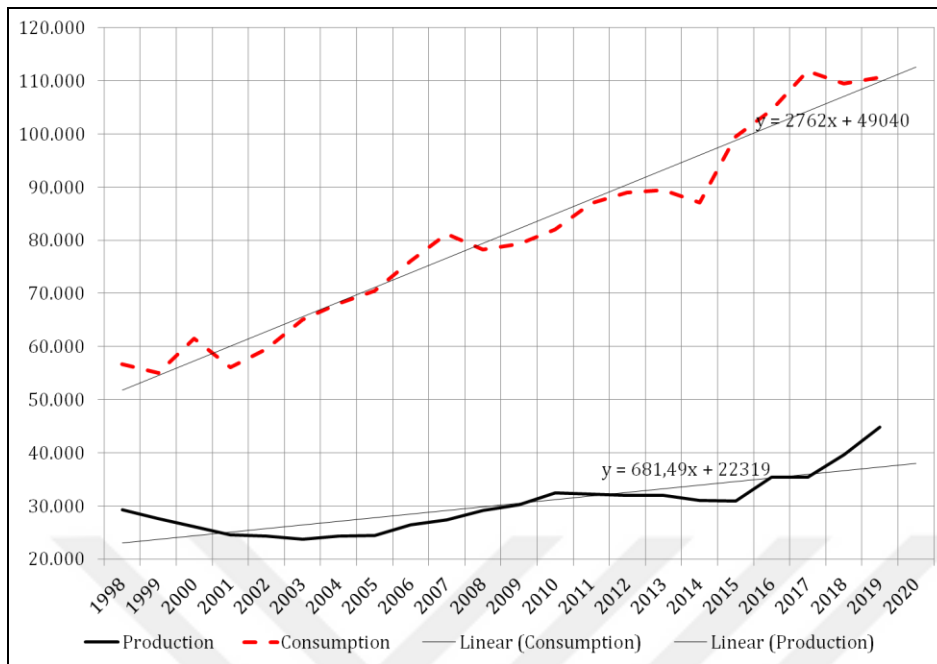


Figure 4.1 Total Primary Energy Production and Consumption in Turkey, as ktoe, 1998-2019 (Source: *ETKB*)

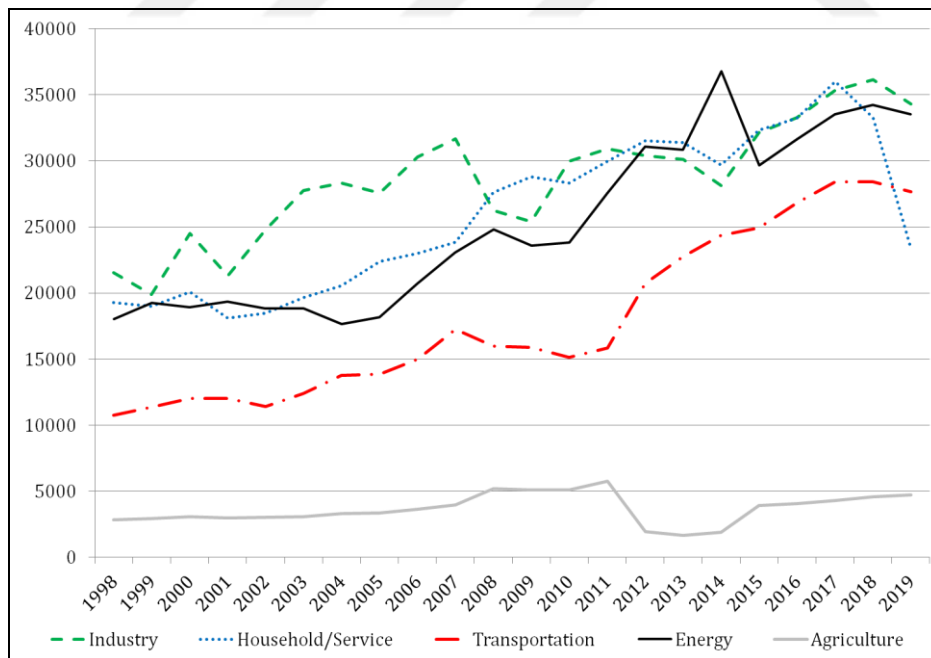


Figure 4.2 Sectoral Primary Energy Consumption in Turkey, as ktoe, 1998-2019 (Source: *ETKB*)

#### 4.1.1: Coal

The coal has been extracted in Turkey since the mid-1800s. The country has a limited amount of hard coal (anthracite and bituminous), and a more generous amount of brown coal (lignite and sub-bituminous) reserves. According to the British Petroleum (BP), Turkey's coal reserves consist of 550 million tonnes of hard, and 10.975 billion tonnes of brown coal.<sup>363</sup> With these reserves, the country holds only 0,07% of world total high quality, and 3,42% of low quality coal reserves. Parallel to its weak resource base in coal, Turkey could not achieve to utilise its existing assets, too. Since the year 1942, Turkey produced 246 million tonnes of hard coal, according to the Turkish Hard Coal Enterprise (TTK, in its Turkish acronym).<sup>364</sup> The country's hard coal production seems peaked around mid-1970s with 8,5 million tonnes per year; it later fell below four million tonnes in 1980s and below two million tonnes in 2013 permanently.<sup>365</sup> Lastly, in 2018, hard coal production of Turkey was only 1.206.748 tonnes (see Figure 4.3). These amounts are very far from meeting the country's demand; thus, production/demand ratio has deteriorated even more since the year 2000, when the domestic production met 18,26% of the gross demand; this later fell to 3,05% in 2019.<sup>366</sup> Not only dwindling production, but also climbing demand contributed to this change; the total demand rose to 39,506 thousand tonnes in 2019, from its 2000 level, 15,363 thousand tonnes (see Figure 4.4). Increasing demand meant increasing import which reached to 38,300 thousand tonnes in 2019, by increasing 294,8% between the years 2000 and 2019.

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<sup>363</sup> BP, *ibid.*, pg. 36.

<sup>364</sup> *2019 Yılı Taşkömürü Sektör Raporu*, TTK, 2020, pg. 23.

<sup>365</sup> *Ibid.*, pg. 26.

<sup>366</sup> *Ibid.*, pg. 25.

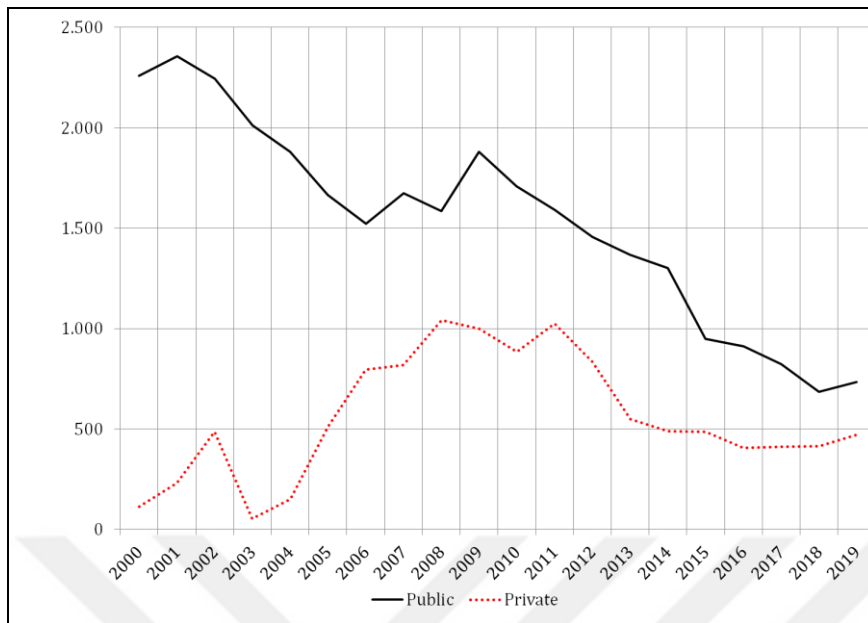


Figure 4.3 Turkey's Hard Coal Production by Producer, as tonnes, 2000-19  
(Source: *TTK*)

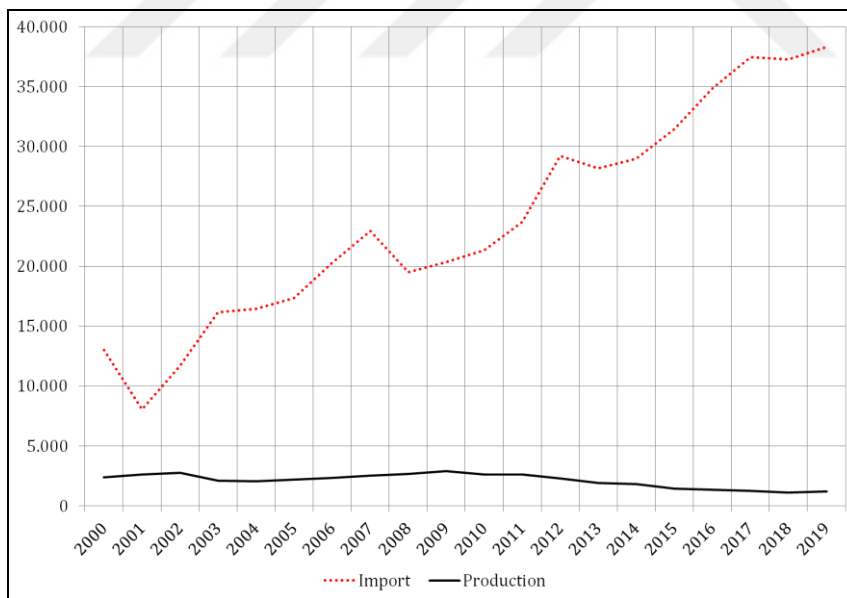


Figure 4.4 Turkey's Hard Coal Import, Production, and Demand, as thousand tonnes, 2000-19<sup>367</sup> (Source: *TTK*)

<sup>367</sup> The demand is equal to the sum of import and domestic production.

Turkey imports hard coal from a number of countries. Among them, Colombia and Russia are the most prominent ones by far; Turkey imported 18,946 and 12,338 thousand tonnes of hard coal from these two countries in 2018, respectively.<sup>368</sup> Some other major countries from which Turkey imports hard coal for various purposes are Australia, Canada, the US, Poland, Indonesia, and South Africa (see Figure 4.5). Due to insufficient production and high demand, the average share of imported hard coal in Turkey’s consumption has been above 95% during the last years.<sup>369</sup> In the country’s total hard coal consumption, the biggest share belongs to the coal-fired thermal power plants; while the second biggest consumer is the coking industry (see Figure 4.6). The rapid increase in the share of thermal power plants is an outcome of Turkey’s electricity policy and this trend is even more explicitly observable for lignite.

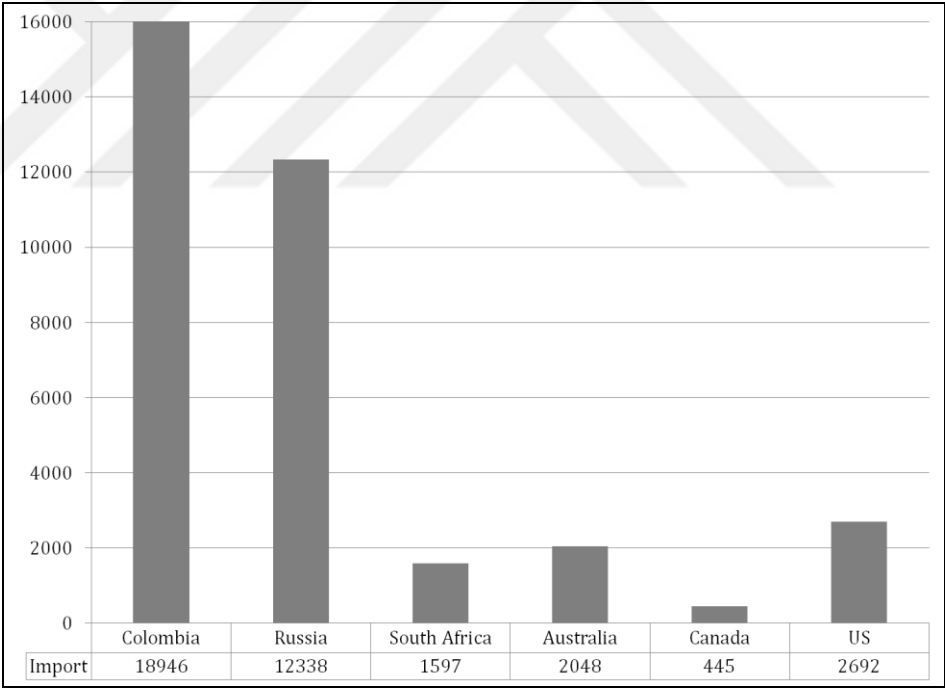


Figure 4.5 Turkey’s Hard Coal Imports from Selected Countries, as thousand tonnes, 2018 (Source: *TTK*)

<sup>368</sup> Ibid., pg. 28.

<sup>369</sup> Ibid, pg. 27.

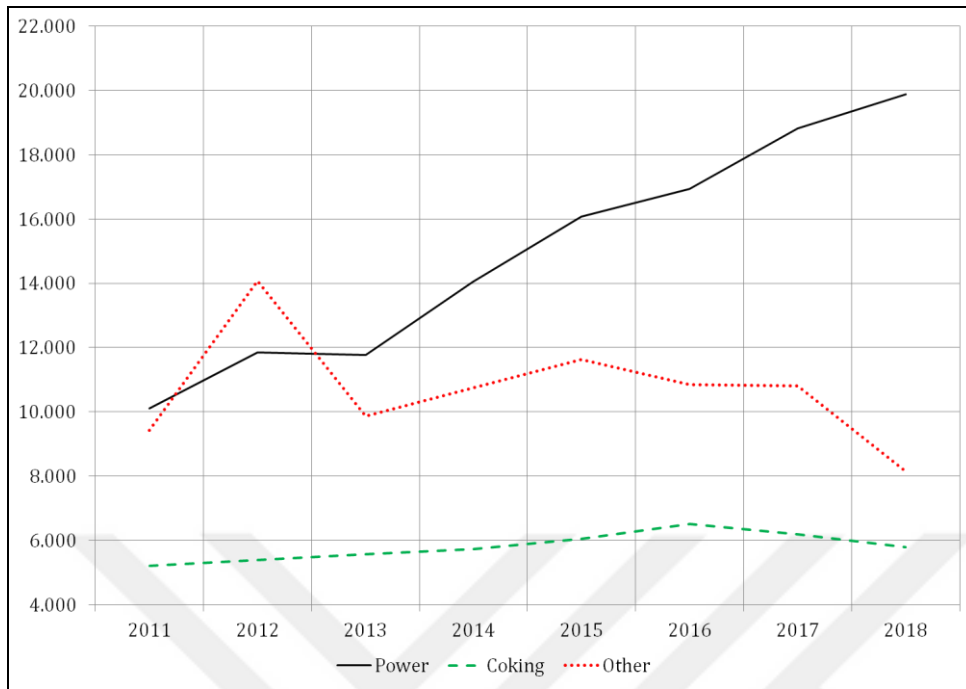


Figure 4.6 Turkey's Hard Coal Consumption by Sectors, as thousand tonnes, 2011-18 (Source: TTK)

Turkey, thanks to its considerable lignite reserves, is in a better position in terms of brown coal, at the first glance. The country has the fifth largest reserve in the world, with its almost 11 billion tonnes reserve.<sup>370</sup> According to two official Turkish figures, the country has 17,5 billion tonnes lignite, and holds more than 7%, and 8,7% of world total reserves.<sup>371</sup> Lignite production in Turkey gained momentum after the oil crises, in order to secure primary energy and electricity supplies; the country produced 5,8 million tonnes of lignite in 1970 to achieve this goal.<sup>372</sup> In 2018, Turkey produced more than 81,08 million tonnes and exceeded the pre-2008 global crisis levels when it hit to 76 million tonnes in

<sup>370</sup> BP, op. cit., pg. 36.

<sup>371</sup> Kömür Arama Araştırmaları, Maden Tetkik Arama, <http://www.mta.gov.tr/v3.0/arastirmalar/komur-arama-arastirmalari>; 2019 Kömür (Linyit) Sektör Raporu, TKİ, 2020, pg. 43.

<sup>372</sup> 2015 Kömür (Linyit) Sektör Raporu, TKİ, 2016, pg. 27.

2008 (see Figure 4.7).<sup>373</sup> Despite some fluctuations, Turkey's lignite production seems declining after 2008, mostly due to problems in Afşin-Elbistan area, which contains almost half of the country's lignite reserves. If Turkey can revitalise the Afşin-Elbistan area, domestic lignite production can be expected to climb more rapidly, and push the country towards even higher ranks among the major lignite producers, in which Turkey is already the fourth currently, according to the IEA.<sup>374</sup> There are two public companies at the lignite sector, EÜAŞ and the Turkish Coal Enterprise (TKİ, in its Turkish acronym). Although EÜAŞ entered the sector in 1989, TKİ maintained its weight till mid-1990s, until when the private sector and EÜAŞ started to increase their share through transfers and privatisations. In 2018, EÜAŞ and private companies made a much bigger contribution to the nation's lignite production.

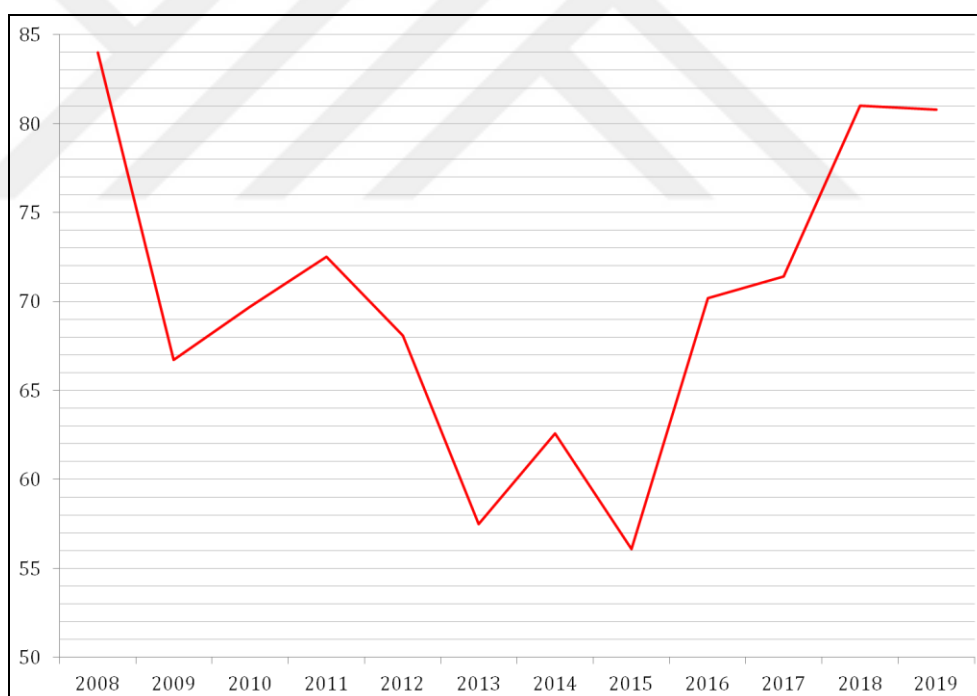


Figure 4.7 Turkey's Lignite Production, as million tonnes, 2008-19 (Source: TKİ)

<sup>373</sup> Ibid.

<sup>374</sup> *Coal Information 2018: Overview*, IEA, pg. 5; *2019 Kömür (Linyit) Sektör Raporu*, TKİ, 2020, pg. 27

Despite Turkey's huge production of its own, the country's lignite and hard coal production is far from meeting the domestic demand, particularly due to increasing consumption of coal-fired thermal power plants. Almost 73,5% of Turkey's lignite production was consumed by the power plants in 2018, while the 4,2% and 4,8% were used by households and industry, respectively.<sup>375</sup> The power sector's consumption, alongside its almost three quarter share in the lignite consumption, covers 60,7% of the hard coal consumption also, and thus, establishes a direct link between coal and electricity markets. This connection was recognised by the Supreme Planning Council in the adopted "Electricity Energy Market and Security of Supply Strategy Paper", which emphasised the significance of utilisation of the domestic coal assets in terms of electricity supply security. Turkey does not import or export a considerable amount of lignite, but, generally speaking, is the eighth largest coal importer in the world.<sup>376</sup> From a historical perspective, Turkey's coal import was \$500 million 20 years ago in 1998, then it rose to \$1,5 billion in 2008, and it climbed to \$4,5 billion in 2018, by growing threefold in ten years (see Figure 4.8). However, it fell to \$2,885 billion as of 2020.

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<sup>375</sup> TKİ, op. cit., pg. 34.

<sup>376</sup> *Key World Energy Statistics 2020*, IEA, 2020, pg.1 7.



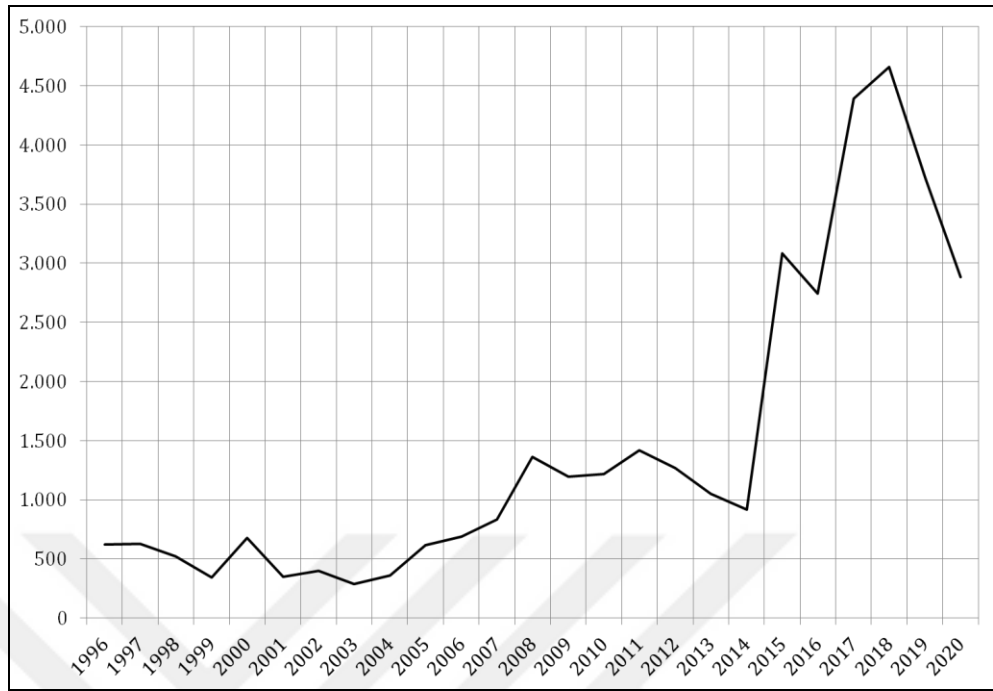


Figure 4.8 Turkey's Total Coal Import, as million US\$, 1996-2020 (Source: TÜİK)

#### 4.1.2: Oil

In terms of oil, Turkey has only a negligible amount of proven oil reserve; therefore, the country's oil production is negligible as well. In 2019, Turkey could produce 59.941 barrels per day (22 million barrels in total), significantly higher than 46.643 barrels per day average in 2012, according to TPAO.<sup>377</sup> Since this amount is far from meeting Turkey's domestic demand, the country has always needed to import crude oil and oil products massively. Thus, self sufficiency rate of Turkey in oil has only been around 6% (see Figure 4.9). For Turkey, acquiring a certain degree of self-sufficiency is a real concern due to dangerous level of import/consumption ratio. What makes this even worse for the future is the rapid increase in consumption; the gross demand exceeded 28 million tonnes in 2017, more than 50% increase for last five years (see Figure

<sup>377</sup> *Ham Petrol ve Doğal Gaz Sektör Raporu*, TPAO, 2016, pg. 38.

4.10). However in 2019, it decreased to 26,73 million tonnes.<sup>378</sup> Since oil is mostly used as a transport fuel, the main engine of the demand increase is the transportation sector.

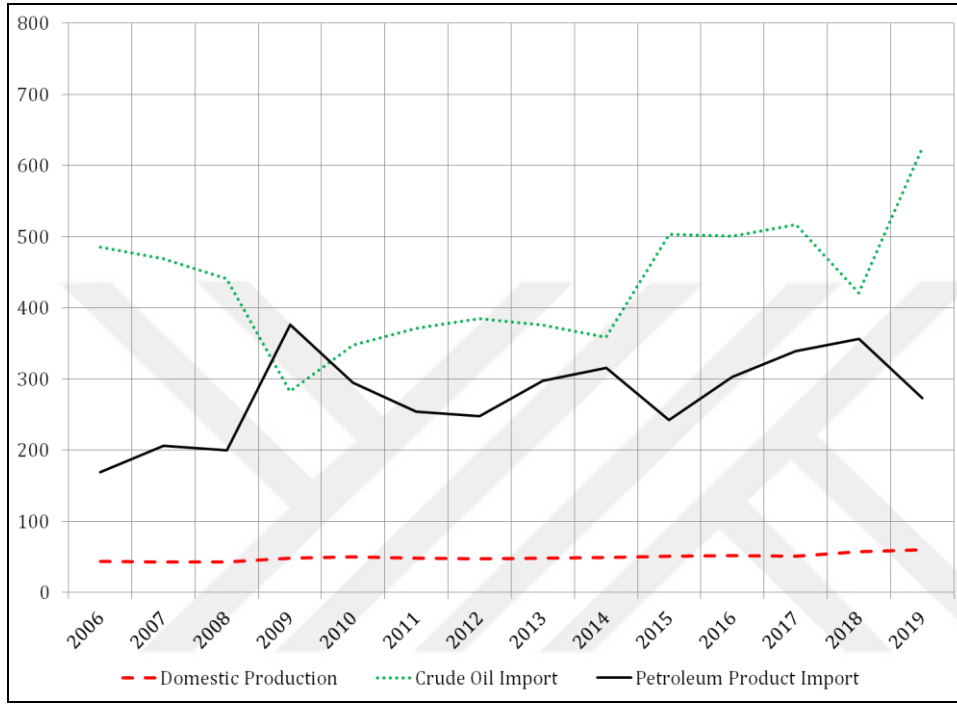


Figure 4.9 Turkey's Oil Production, Crude Oil Import, Petroleum Products Import, as kbpd, 2006-19 (Source: TPAO)

<sup>378</sup> Petrol Piyasası Sektör Raporu 2019, EPDK, 2020, pg. III.

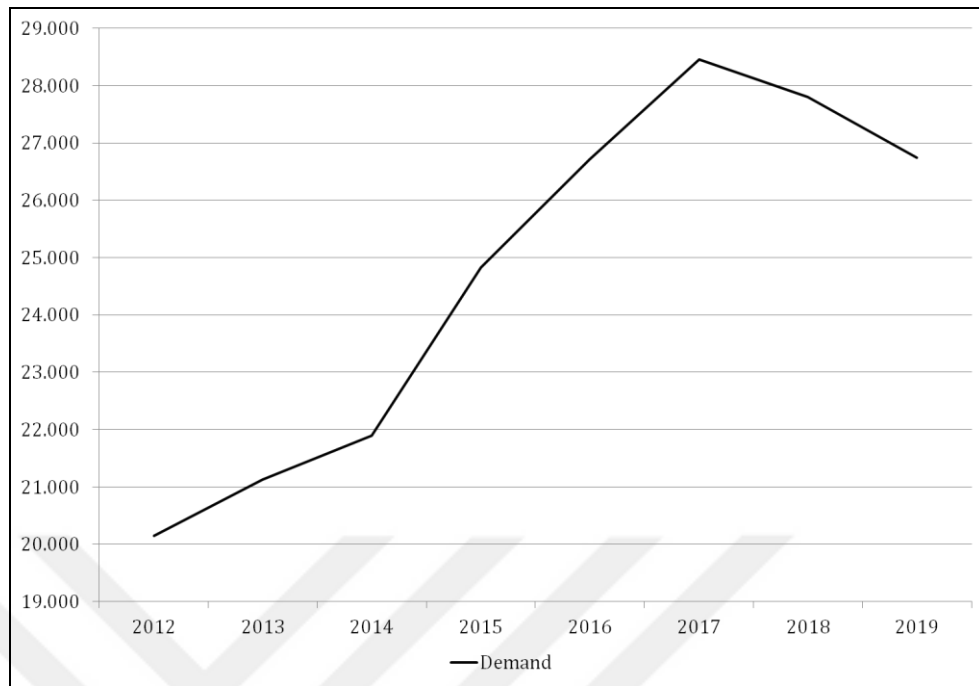


Figure 4.10 Oil Demand in Turkey, as thousand tonnes, 2012-19 (Source: EPDK)

Due to increasing demand, Turkey's import reached to 51,947 million tonnes of oil and petroleum products which corresponded to 93% of the country's total consumption in 2019.<sup>379</sup> Earlier in 2015, the country imported 503 kbpd crude oil, and 242 kbpd petroleum products.<sup>380</sup> Although the neighbours of Turkey had the largest share in this amount, prominent petroleum products exporters in the farther regions had considerable shares as well. For example, in 2017, the first five exporters included India, alongside Iran, Russia, Iraq, and Saudi Arabia (see Figure 4.11). Thanks to flexible oil market, Turkey has alternatives to import oil and petroleum products; therefore, large alterations in the first five destinations occur often, in accordance with the political economic developments. What is also fortunate for the country is its export potential in petroleum products. A portion of Turkey's crude oil import is exported abroad in the form of various petroleum products. In 2019, 14,75 million tonnes was

<sup>379</sup> ETKB, *2019 Yılı Denge Tablosu*.

<sup>380</sup> TPAO, op. cit., pg. 26.

exported or serviced by Turkey in the forms of either petroleum products or bunker fuel.<sup>381</sup>

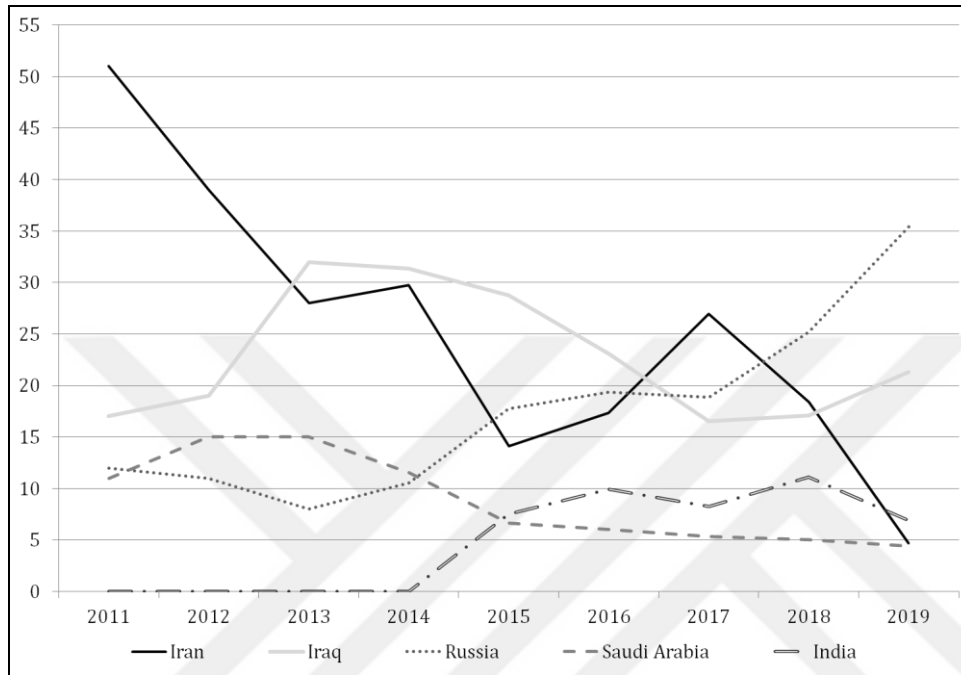


Figure 4.11 Shares of Selected Crude Oil and Petroleum Products Suppliers to Turkey, as %, 2011-19 (Source: EPDK)

In order to strengthen its self-sufficiency in oil, Turkey made a series of parallel moves by investing in the oil exploration and drilling segments. For this purpose, Turkey focused on developing its capabilities in these segments; bought a \$130 million worth seismic vessel for TPAO in 2013, renamed it as Barbaros Hayreddin Paşa (previously known as Polarcus Samur), and initiated studies in the Black Sea and eastern Mediterranean.<sup>382</sup> Later, in 2017, multipurpose research vessel MTA Oruç Reis was built in Turkey, and, after some studies in the Black Sea, it was sent to eastern Mediterranean to support

<sup>381</sup> ETKB, op. cit.

<sup>382</sup> "Enerji Bakanlığı'ndan soru önergesine yanıt", *Enerji Günlüğü*, August 26, 2013, <https://enerjigunlugu.net/icerik/4666/enerji-bakanligindan-soru-onergesine-yanit.html>.

Barbaros Hayreddin Paşa.<sup>383</sup> Alongside research vessels, Turkey invested in drillships as well. The country bought Deepsea Metro 2 (currently known as Fatih) in late 2017, and initiated drilling in eastern Mediterranean in late 2018. Following this ship, the country bought another drillship, Deepsea Metro 1, sister rig of the first drillship Fatih, in late 2018 for \$262,5 million.<sup>384</sup> Lastly, the Turkish government bought a third drillship, Sertao, from the United Kingdom; it was planned to conduct offshore drillings in eastern Mediterranean, too.<sup>385</sup>

Turkey, by improving its capabilities in oil and natural gas sectors, intended accomplishing three goals combined: increasing self-sufficiency in oil and natural gas, hindering utilisation of the eastern Mediterranean hydrocarbon resources without consent of Turkey, and preventing a fait accompli about any dimension of the Cyprus question. In this sense, developing national exploration and drilling capabilities has turned into an element of geopolitical considerations of the country, rather than a pure economic move.

#### 4.1.3: Natural Gas

When it comes to geopolitics, the most politicised primary energy resource in Turkey's energy basket is natural gas. Since the country has had no considerable reserves until August 2020, natural gas import has been an issue of the country's foreign relations. Furthermore, because the natural gas market has not been as flexible as oil and coal historically, acquiring secure supply of

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<sup>383</sup> MTA Oruç Reis, Maden Tetkik Arama, [http://www.mta.gov.tr/eng/sayfalar/departments/doc/MTA\\_ORUC\\_REIS\\_ENG\\_17032017.pdf](http://www.mta.gov.tr/eng/sayfalar/departments/doc/MTA_ORUC_REIS_ENG_17032017.pdf).

<sup>384</sup> David Carter Shinn, "Bassoe: Ultra deepwater drillship Deepsea Metro I sold for \$262.5 M", Offshore Energy Today, October 24, 2018, <https://www.offshoreenergytoday.com/bassoe-ultra-deepwater-drillship-deepsea-metro-i-sold-for-262-5-m/>; Nermin İstikbal, "ürkiye, 'Deepsea Metro I' sondaj gemisini satın aldı", *Deniz Haber*, November 12, 2018, <http://www.denizhaber.com/ekonomi/turkiye-deepsea-metro-i-sondaj-gemisini-satin-aldi-h76484.html>.

<sup>385</sup> Murat Temizer, "Turkey's 3rd drillship from UK expected on 17", *Anadolu Agency*, February 27, 2020, <https://www.aa.com.tr/en/energy/investments/turkeys-3rd-drillship-from-uk-expected-on-march-17/28482>.

natural gas has been under risk. Turkey's own natural gas reserves are predicted to be around 3,8 billion cubic meters (bcm).<sup>386</sup> However, this seems to be updated upwards significantly, after natural gas exploration of TPAO in the western Black Sea. The new exploration is predicted to be around 405 bcm, and to be a game changer in terms of Turkey's energy relations with its suppliers.<sup>387</sup> However, the recently explored reserves have not been operationalised yet. With a limited reserve base, Turkey's natural gas production has also been very low; the country could only produce 473,87 million cubic meters in 2019 (see Figure 4.12).<sup>388</sup> In comparison to the country's high demand for natural gas, domestic production is almost nothing; this insufficiency makes the country dependent upon foreign suppliers to meet its demand. As the country's natural gas consumption climbs up, the dependency ratio climbs as well; the natural gas consumption in the country increased around 5% in 2018 and reached to 53,85 bcm by leaving Turkey 99,4% dependent upon import in natural gas (see Figure 4.13). However, in 2019, total demand decreased to 45,3 bcm, by diminishing 7,9%.

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<sup>386</sup> TPAO 2019 Sektör Raporu, TPAO, 2020, pg. 36.

<sup>387</sup> *TPAO's Latest Discovery: Tuna-1*, TPAO, Press Release, August 21, 2020, TPAO, <http://www.tpao.gov.tr/file/2008/press-release-21-08-2020-tuna-1-3485f4255816ff9b.pdf>; *TPAO has made a second discovery in the lower section of Tuna-1 well adding another 85 BCM (3 TCF) lean gas to its Sakarya Find in Western Black Sea*, TPAO, Press Release, October 17, 2020, <https://www.tpao.gov.tr/file/2010/press-release-tuna-1-discovery-17-10-2020-3825f8b0ef03ee93.pdf>.

<sup>388</sup> *Doğalgaz Piyasası Sektör Raporu 2019*, EPDK, 2020, pg. VII; BOTAŞ, op. cit., pg.15.

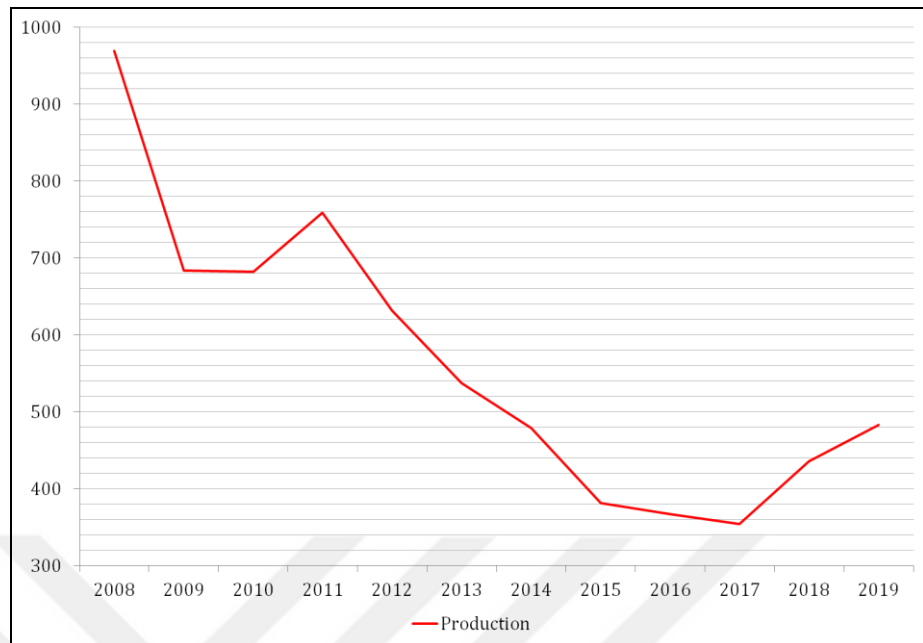


Figure 4.12 Turkey's Domestic Natural Gas Production, as million cubic meters, 2008-19 (Source: *BOTAŞ, EPDK*)

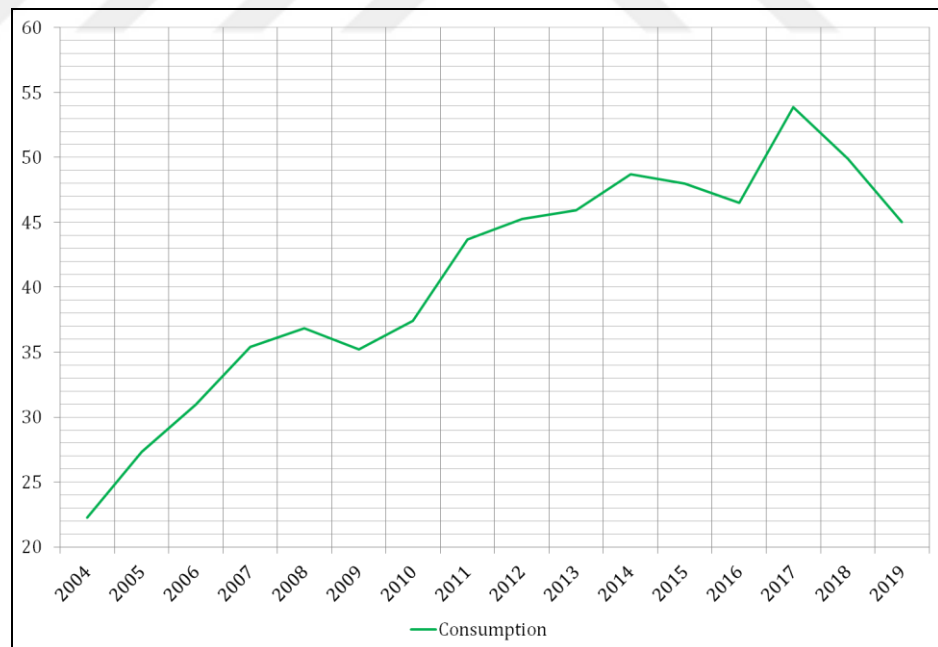


Figure 4.13 Natural Gas Consumption in Turkey, as bcm, 2004-19 (Source: *EPDK*)

Behind the increase in the consumption, both the household consumption and the power sector have been influential traditionally. Turkey, during the last 20 years, has widened its natural gas distribution network to all provinces as a socio-economic policy. This pushed the household consumption upwards, particularly during winter times. In addition to the household consumption, the power sector has contributed much to increasing consumption due to natural gas-fired plants in the country. The biggest shares in Turkey's natural gas consumption belong to these two sectors; for example, in 2019, the power sector, household consumption, and industry had 24,8%, 31,7%, and 27,4% shares respectively (see Figure 3.14).<sup>389</sup>

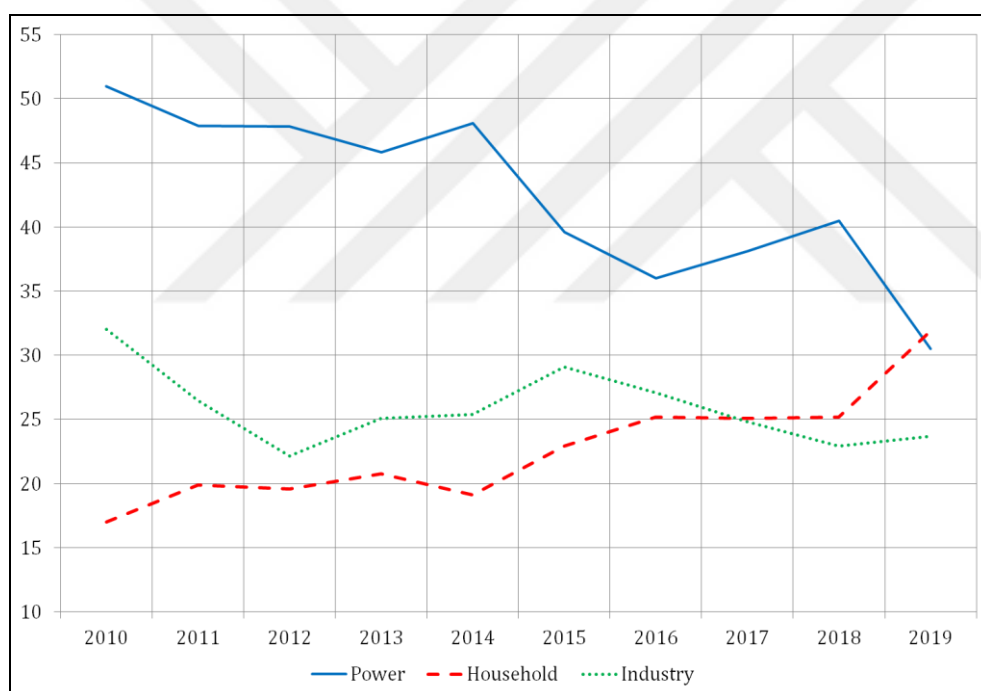


Figure 4.14 Turkey's Natural Gas Consumption, by Sectors, as %, 2010-19  
(Source: EPDK)

<sup>389</sup> EPDK, *ibid.*, pg. 61.



There is a disproportion in terms of the source countries from where Turkey imports natural gas, unlike the more or less diversified oil import. Since it has been the first natural gas supplier of Turkey in mid-1980s, Russia has dominated the Turkish natural gas market as the sole supplier for a long time. Later, in time, Turkey has achieved a degree of diversification by adding new suppliers into its natural gas mix (see Figure 4.15). Still, Russia plays a pivotal role in the Turkish natural gas market with a 33,6% share in 2019.<sup>390</sup> Turkey achieved diversification by constructing new pipelines with its neighbours and benefiting from developments in the liquefied natural gas market. After the construction of the West Line, as the first gas pipeline between Russia and Turkey in 1987, Turkey built a liquefied natural gas terminal for BOTAŞ in 1994. Thus the country not only could import gas from overseas suppliers such as Algeria and Nigeria, but also from spot markets via tankers. However, because of the rapid increase in the consumption, Turkey needed to import more gas while maintaining its efforts for diversification. The Iran-Turkey gas pipeline (Tebriz-Ankara natural gas pipeline) was built with this purpose in 2001.

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<sup>390</sup> Ibid.

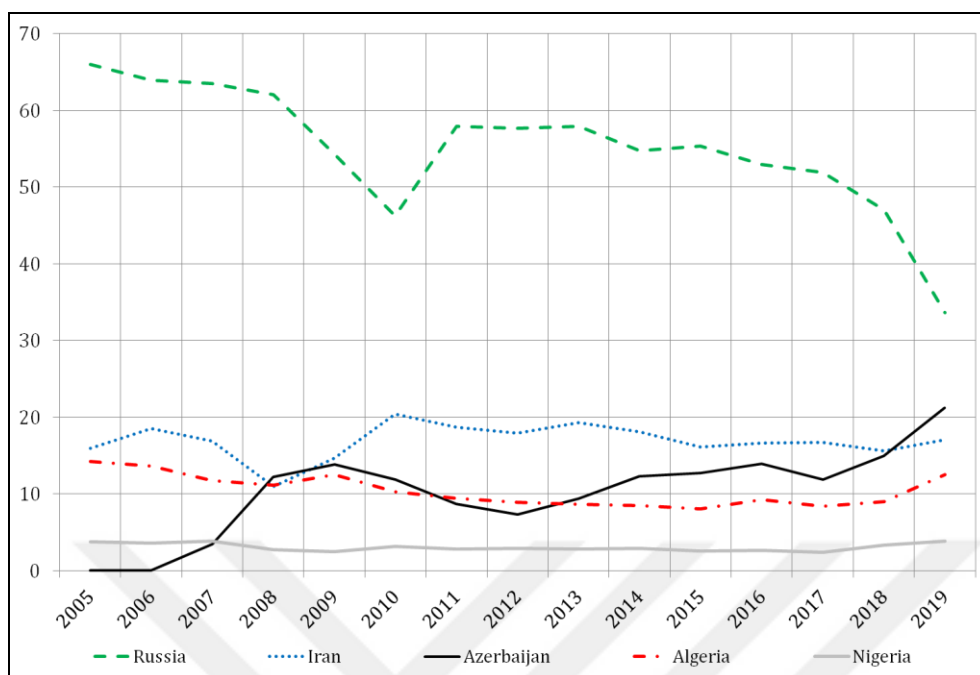


Figure 4.15 Shares of Selected Natural Gas Suppliers of Turkey, as %, 2005-19  
(Source: EPDK)

It soon was followed by a second line from Russia, Blue Stream, in 2003. Four years later, Baku-Tbilisi-Erzurum gas pipeline was constructed and thus, Turkey added a new gas supplier into its energy mix: Azerbaijan. Another significant step towards diversification was the construction of Trans-Anatolian Natural Gas Pipeline (TANAP), which transports Azerbaijan's gas to Europe through Turkey. Alongside the pipelines mentioned, Turkey constructed one liquefied natural gas terminal on the Aegean shore in 2006, and two floating storage and regasification units; in 2016 and 2018, in İzmir and Hatay, respectively. Lastly, at the beginning of 2020, Turk Stream natural gas pipeline came into operation between Russia and Turkey. In addition to various gas entry points, Turkey also has significant gas storage facilities. Mainly in two storages, in Northern Marmara and Lake Tuz, Turkey will have 5,5 bcm storage capacity, when all expansions are completed. These combined efforts are expected to serve to Turkey's ultimate goal in natural gas: being an energy hub where the price of energy is made regionally. Furthermore, diversification of suppliers and having

natural gas storage will insure the country against the seasonal price fluctuations not only at the natural gas market, but also at the electricity market, since natural gas is one of the main inputs for the power sector.

#### 4.2: Overview of the Turkish Electricity Sector

The Ottoman Turkey met with electricity generation in 1902, with a 2 kW generator in Tarsus, and was slow in electrifying the country. Alongside the continuous wars and deep economic problems of the country, two personal phobias of the Sultan Abdülhamid II slowed down the electrification process. Firstly, the Sultan feared that the electrified industry could be destroyed by the enemies from thousand kilometres away via electric cables.<sup>391</sup> Secondly, after an unsuccessful assassination attempt on July 21, 1905, he mistook “dynamo” for “dynamite” which was used against him at the assassination attempt, and strictly refused all developments related with dynamo and electricity.<sup>392</sup> In fact, especially the first phobia of the Sultan can be regarded as one of the earliest examples of modern energy security understanding. Later, in February 1914, the first large-scale generation plant, Silahtarağa thermal power plant, was opened in İstanbul with a 12 MW initial installed power.<sup>393</sup> Because of the First World War, the electricity sector could not develop beyond this level, during the Imperial era.

When the Republic of Turkey was founded in 1923, the country had 32,8 MW installed capacity in 38 separate power plants, 14 owned by real persons, 13 by companies and 11 by local municipalities. Only three cities, İstanbul, Adapazarı

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<sup>391</sup> R.Sertaç Kayserilioğlu, *Dersaadet'ten İstanbul'a Tramvay*, İstanbul, İETT Genel Müdürlüğü, 1998.

<sup>392</sup> Bahadır Bayrıl, Seyhan Erözçelik and Serdar Yılmaz, *Önce Ateş Vardı: Türkiye'de Enerji Devrimi ve Modern Hayatın Etkileşimi*, İstanbul, Mehmet Zorlu Vakfı, 2009.

<sup>393</sup> Santral İstanbul, *Silahtarağa Elektrik Santral'i'nin Hikayesi*, Santral İstanbul, [https://www.santralistanbul.org/media/press\\_archive/medya\\_190.pdf](https://www.santralistanbul.org/media/press_archive/medya_190.pdf), accessed on January 23, 2021.

and Tarsus, were electrified which left 94% of the population without electricity connection, meaning 3 kWh electric power consumption per person.<sup>394</sup> In Ankara, the new capital, the first plant was constructed in Bentderesi, in 1924 and was followed by a second which was established by German origin companies AEG and MAN.<sup>395</sup> During 1920s, among 201 new Turkish companies, only nine were dealing with the energy business, and all were operated by foreigners somehow.<sup>396</sup> During this period, electricity was sold in a fixed gold-standard system in order to protect the electricity generators from price fluctuations in the market.<sup>397</sup> Throughout the period, electricity was generated mainly for industrial purposes in Turkey; so, autoproducers of electricity spread across. These autoproducers not only met their own needs, but also sold excess generation to their neighbourhood. With the contributions of these autoproducers providing their neighbourhood with electricity, 105 cities were electrified within the first ten years of the republic.<sup>398</sup> In 1929, Visera (currently known as Işıklar) hydro power plant was constructed. The plant is the first hydro power plant in Turkey, and also, is among the first ten hydro power plants in the world.

Because the 1929 Great Depression diminished investment capabilities of the private sector, the state had to step in to spread electrification. Therefore, particularly starting from 1930s, weight of the state increased in the sector, until mid-1980s when some preliminary steps towards reform were taken. In 1953, the first electricity transmission line was constructed from Çatalağzı

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<sup>394</sup> Türkiye Sanayici İşadamları Derneği (TÜSİAD), *21. Yüzyıla Girerken Türkiye'nin Enerji Stratejisinin Değerlendirilmesi*, İstanbul, TÜSİAD, 1998, pg. 5

<sup>395</sup> Ibid., pg. 7.

<sup>396</sup> A.Gündüz Ökçün, *1920-1930 Yılları Arasında Kurulan Türk Anonim Şirketlerinde Yabancı Sermaye*, Ankara, Ankara Üniversitesi Siyasal Bilgiler Fakültesi Publications, 1971.

<sup>397</sup> Emine Erol, *Türkiye'de Elektrik Enerjisinin Tarihi Gelişimi 1902-2000*, İstanbul University Graduate School of Social Sciences PhD Thesis, 2007, pg. 54.

<sup>398</sup> Yüksel Ülken, *Atatürk ve İktisat, İktisadi Kalkınmada Etkinlik Sorunu ve Eklektik Model*, İstanbul, Türkiye İş Bankası Kültür Yayınları, 1981; Nazmiye Özdemir, *Türkiye'de Elektriğin Tarihsel Gelişimi (1900- 1938)*, Ankara University School of Social Sciences Master's Thesis, 2011.

power plant in Zonguldak, to İstanbul. In 1956, Sarıyar hydro power plant which had 160 MW installed capacity was completed as the first hydro power plant in the country with a dam. During 1960s, the Bosphorus strait was crossed with a 154 kV transmission line for the first time. Three years later, the Ministry of Energy and Natural Resources was established for increasing administrative coordination. In 1973, Turkey built its first interconnection line with Bulgaria, and developed required infrastructure to import electricity. The first commercial wind power plant of the country started to operate in Çeşme, in 1989. During 1990s, restructuring process fastened, Turkey started to export electricity, and completed Atatürk dam, which is the largest dam in Europe, Caucasus, and the Middle East. Lastly, the first two decades of the 21<sup>st</sup> century brought remarkable changes to the Turkish electricity sector towards liberalisation.

The main struggle of the Turkish electricity sector has always been meeting thriving demand for decades, until the very recent times. One of the main reasons for this was the booming population. According to the first census after the foundation of the new state, population of Turkey was 13,64 million in 1927, whereas it is currently 84 million. Similarly, the per capita gross electricity consumption was 3 kWh in the first years of the new republic, whereas it is 3.3 MWh as of 2019. Since the foundation of the Republic of Turkey in 1923, the average annual growth in gross electricity demand has been 9,83% until 2019 in the last 96 years.<sup>399</sup> Yet, a decrease in the growth rate of the demand is apparent when the annual growth levels are evaluated from a historical perspective (see Figure 4.16).

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<sup>399</sup> The data was compiled from the TEİAŞ database.

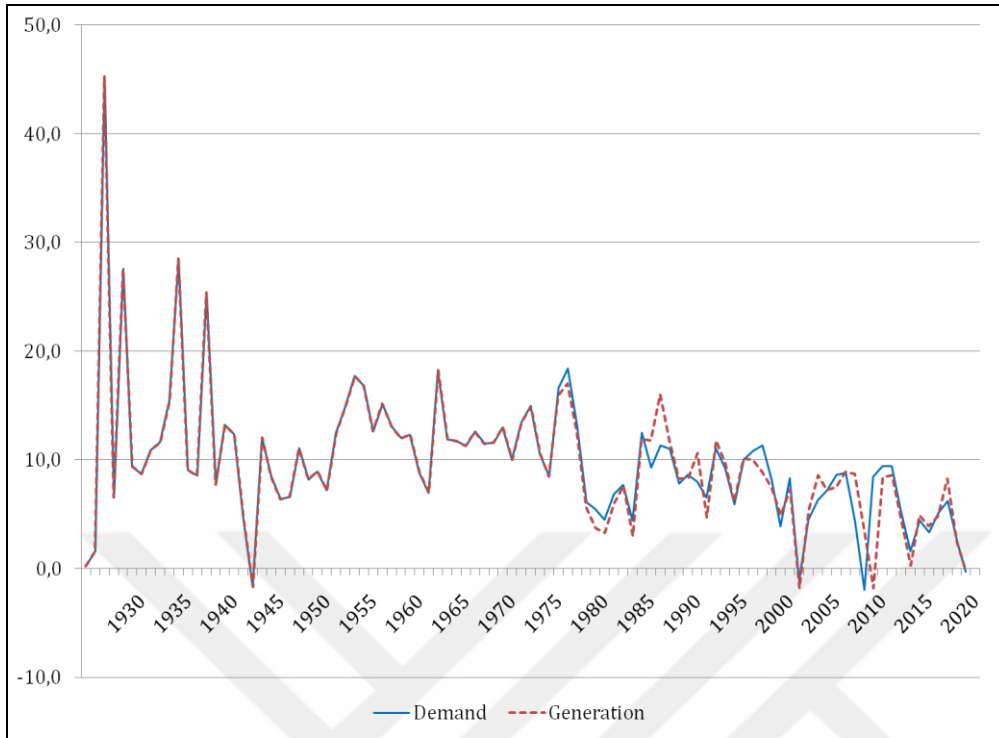


Figure 4.16 Growth Rates of Electricity Demand & Generation in Turkey, as %, 1923-2019 (Source: TEİAŞ)

On the other hand, due to hardship in satisfying enormous investment needs of the electricity sector with public resources, the average annual growth rate of electricity generation in the same period has been slightly below the growth rate of gross demand with 9,8% (see Figure 4.16).<sup>400</sup> Until the year 1975, the growth rates of demand and generation were exactly the same, due to absence of any electricity export/import activity. However, in July 1975, Turkey started to import electricity from Bulgaria.<sup>401</sup> Therefore, the growth rates in demand and generation started to differentiate after 1975. Nevertheless, this marked the early signs of an emerging problem of climbing electricity import level which

<sup>400</sup> The data was compiled from the TEİAŞ database.

<sup>401</sup> "Elektriğe Zam İstendi", *Milliyet*, January 28, 1975, <http://gazetearsivi.milliyet.com.tr/Ara.aspx?ilkTar=01.01.1975&sonTar=31.12.1975&ekYayin=&drpSayfaNo=&araKelime=elektrik&gelismisKelimeAynen=&gelismisKelimeHerhangi=bulgaristan&gelismisKelimeYakin=&gelismisKelimeHaric=&Siralama=tarih%20asc&SayfaAdet=20&isAdv=true>.

increased gradually throughout the years (see Figure 4.17).<sup>402</sup> In the first years, the ratio of electricity import to gross demand rose quickly until it reaches to 7,97% in 1984, then it decreased to 0% in 1995 before it started to rise again after mid-1990s. In 2019, Turkey imported 2.212 GWh, and exported 2.789 GWh electricity, which corresponded to 0,86% and 1,09% of its gross annual consumption, respectively.

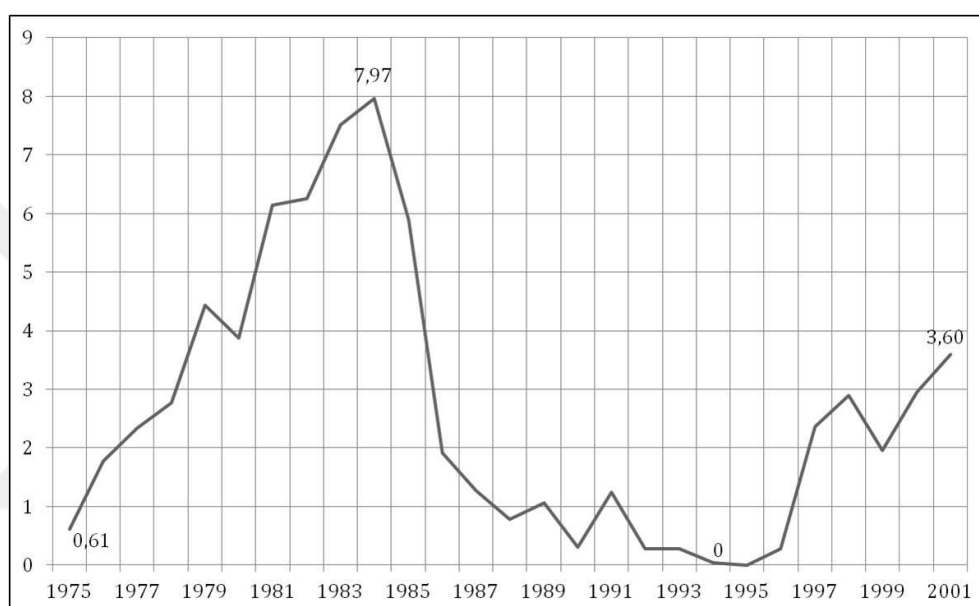


Figure 4.17 Rate of Electricity Import of Turkey, as % of Gross Demand, 1975-2001 (Source: TEİAŞ)

From a historical perspective, the bulk of electricity generation in Turkey has always depended upon thermal power plants. However, the country has been trying to reverse this situation for many years, by utilising more renewable resources in electricity generation, parallel to the global trends. Lastly, in 2019, thermal power plants met 69,33% of gross demand in Turkey, while renewables (including hydro) met 30,67%.<sup>403</sup> A detailed analysis of these figures reveals the

<sup>402</sup> The data was compiled from the TEİAŞ database.

<sup>403</sup> The data was compiled from the TEİAŞ database.

fact that Turkey is considerably dependent upon foreign energy supplies in power generation as it is dependent in the other fields of energy sector. For instance, in 2019, Turkey generated almost 40% its electricity from imported energy resources; 20% from imported coal, and 20% from natural gas (see Figure 4.18). Nevertheless, from a historical perspective, it can be seen that not only thermal/renewable generation ratio, but also imported/domestic resource ratio fluctuates from year to year, for a variety of reasons such as climatic conditions of Turkey and the supplier countries, and current developments in the economic activities.

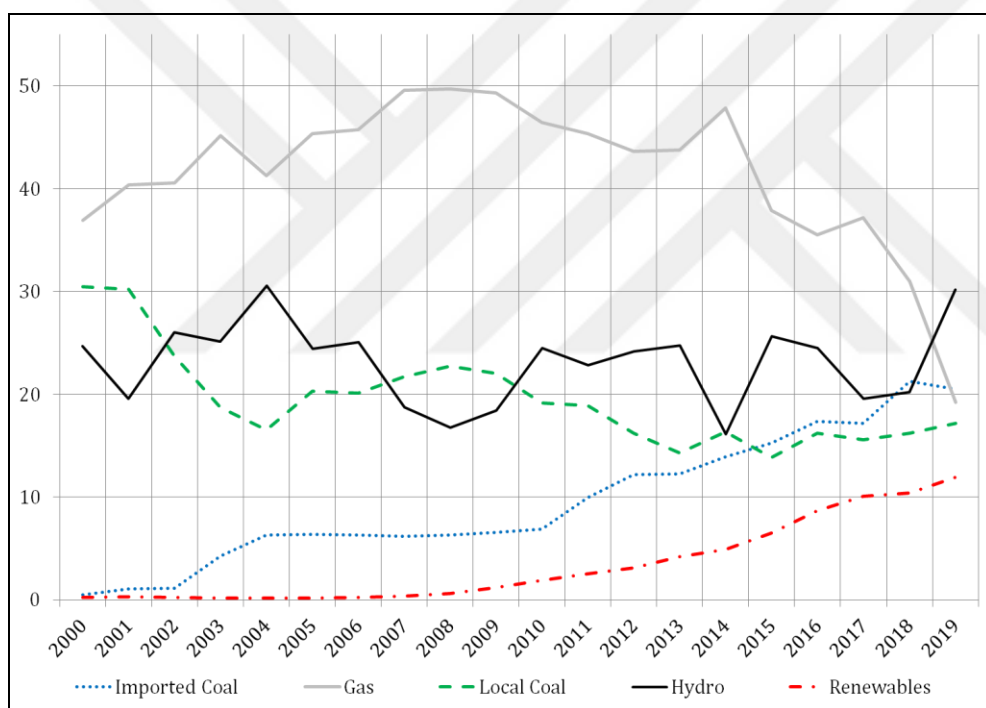


Figure 4.18 Turkey's Electricity Generation by Primary Sources, as % of Gross Generation, 2000-19 (Source: TEİAŞ)

As the Figure 4.18 shows, Turkey's efforts to decrease the share of natural gas have started to deliver positive results after 2008 when the share of natural gas reached its zenith, 49,73%. In these efforts, renewable energy investments



made important contribution; steadily increasing share of renewables exceeded 10% in 2017 for the first time. Turkey's electricity will be diversified even further, when the country's first nuclear power plant, Akkuyu, is completed in 2023 with its 4800 MW installed power. The plant is constructed by a Russian company, Rosatom, in southern Turkey, Mersin. A third point which can be grasped from the Figure 4.18 is Turkey's tendency for imported coal which passed the share of local coal for the first time in 2015. Lastly, it is important to note that due to varying contribution of hydro plants on annual basis, natural gas and imported coal plants provide the network with a certain degree of insurance. One of the main targets of electricity liberalisation in Turkey is to provide this insurance by the hand of market structures through integrating private entrepreneurs into different segments of the sector.

#### **4.3: Evolution of the Turkish Electricity Market**

The Turkish electricity sector has followed the global tendencies since the very first moment of its development. At the early stages, the organising principle of the industry was giving concessions to private entrepreneurs within a limited region for a limited time; in many cities, including the imperial capital İstanbul, this method was preferred. This was the first organising principle of the electricity industry chronologically. In those times, the main electricity consuming activity was lighting; so, the consumption times were easy to predict and there was not national grid or high voltage electricity transmission lines. The picture was more or less the same everywhere in the world. In Turkey, differently from the western world, the entrepreneurs were foreigners most of the time. This was due to lack of technical knowledge and of accumulated capital in the country which spent its time, capital, and young generations for uninterrupted wars for 12 years until 1923. In this situation, the ideological orientation of the new republic which opted for liberal economic policies until 1929 was influential as well.

This organising principle of the industry evolved towards public ownership. This was the second organising principle of the electricity industry chronologically. The change did not take place in vacuum; on the contrary, it was pretty much a reflection of a general transformation in the global political economic practices. As mentioned earlier (see Chapter 2.1), the idea of public ownership increased its popularity around 1930s with the rise of Keynesianism, and this had direct effects on different industries including utilities. Following global tendency towards nationalisation, Turkey also chose nationalising its electricity sector starting from 1930s, extending to early 1940s.<sup>404</sup> In 1963, Turkey established the Ministry of Energy and Natural Resources (ETKB, in its Turkish acronym) with the law number 4951 in order to manage and coordinate its relations and policies in the field of energy.<sup>405</sup> Seven years later, in 1970, Turkish Electricity Corporation (TEK, in its Turkish acronym) was established with the law number 1312 as responsible from generation and transmission, by leaving distribution to municipalities and to some concessioner companies.

The early steps of liberalisation in the Turkish electricity market can be traced back to 1980s; in other words, it is not a new phenomenon. This, interestingly, places the electricity liberalisation policy among the most durable policy choices in the history of Turkey, where the lifetime of a specific policy is usually bound with the lifetime of a specific bureaucrat in the office. For the sake of clarity, this chapter classifies the period before 2001 as the ‘pre-reform period’ and so, the restructuring steps taken before 2001 will be regarded as ‘steps towards reform’. The year of 2001 constitutes a kind of threshold for reform since the EPK was enacted in that year. Although the EPK, as an endeavour to adapt to the global tendencies, aimed to restructure the electricity sector, it was not the first of its kind. Turkey has always been affected by the global trends for a variety of political economic reasons which will be scrutinised in the following sections.

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<sup>404</sup> Erkan Erdoğan, “Regulatory reform in Turkish energy industry: An analysis”, *Energy Policy*, Vol. 35 (2007), pg. 985.

<sup>405</sup> ETKB, *Tarihçe*, ETKB, <https://enerji.gov.tr/tarihce>, accessed on January 19, 2021.

1980s are important for the Turkish electricity sector in two opposite senses; in one hand, the early 1980s witnessed the ‘peak monopolisation’ of the sector, on the other hand, initial restructuring steps towards inclusion of private entrepreneurs followed it. In 1982, TEK became responsible from distribution too; thus, a vertically integrated national monopoly was created in electricity with the law number 2705. At the same year, monopoly of the public sector in generation was removed, and the private entrepreneurs were allowed to build power plants to sell their electricity to TEK. The government has increasingly sought to attract more private investors to the sector in order to decrease the investment burden on the general budget. As part of this endeavour, TEK was restructured in 1984 and legally became a state-owned enterprise. These were early signs of a third transformation in the organising principle of the electricity industry.

#### **4.3.1: Pre-Reform Period**

The first legal framework to attract private investors to the electricity sector was the law number 3096 in 1984.<sup>406</sup> It created the legal basis for two new contract types, Build-Operate-Transfer (BOT) and Transfer of Operating Rights (TOR), and allowed companies to produce their own electricity (autoproducer companies). On August 12, 1993, the Council of Ministers decided to unbundle TEK into two state-owned enterprises as Turkish Electricity Generation-Transmission Company (TEAŞ, in its Turkish acronym), and Turkish Electricity Distribution Company (TEDAŞ, in its Turkish acronym).<sup>407</sup> The BOT contracts were made more attractive in 1994, by supporting them with treasury guarantees and tax exemptions with the law number 3996 and with the Council of Ministers decision number 1994/5907. In July 1997, the government created a new type of contract to attract more private investment to the electricity sector; with the adoption of law number 4283, Build-Operate-Own (or simply

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<sup>406</sup> Resmî Gazete (RG), December 19, 1984.

<sup>407</sup> Resmî Gazete (RG), January 26, 1994.

Build-Operate, BO) contracts for thermal power plants were incorporated into the system.<sup>408</sup>

In the pre-reform period, despite the governments' intention to attract more private entrepreneurs to the electricity sector, neither BOT nor TOR contracts targeted developing a truly competitive electricity sector. According to these models, the private sector would make necessary investment, generate electricity, and sell it to the state within the framework of a guarantee of purchase. In fact, these models, especially BOT contracts, were designed primarily for decreasing the burden on the public purse and were expected to work as a new model for financing the state's electricity generation investments. Interviewees confirmed that BOT system was used as a financing method.<sup>409</sup> These contracts were mostly awarded to a group of companies such as Enka, and were shadowed with a number of questions about transparency, whereas it was possible for governments to increase the efficiency and competitiveness of these plants by auctioning the right to monopoly as it was preferred in some instances.<sup>410</sup> In addition, application of these contracts included a complex procedure of bureaucracy which made them practically unfeasible. Since many different public institutions, such as ETKB, the State Planning Organisation (DPT, in its Turkish acronym), and *Danıştay* (administrative high court), were needed to approve the contracts, at least one of them declined to approve the project, and most of the time the Treasury was hesitant about providing a guarantee.<sup>411</sup>

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<sup>408</sup> Resmî Gazete (RG), July 19, 1997.

<sup>409</sup> Metin Başlı, Ankara, November 20, 2019, interview; some other respondents agreed with this view too.

<sup>410</sup> Ali Ulusoy and Fuat Oğuz, "The privatization of electricity distribution in Turkey: A legal and economic analysis", *Energy Policy*, Vol. 35 (2007), pg. 5024.

<sup>411</sup> Özlem Özkıvrak, "Electricity restructuring in Turkey", *Energy Policy*, Vol. 33 (2005), pg. 1343.

Every project needed to obtain suggestion from ETKB, permission from DPT, a guarantee from treasury, a decree from the Cabinet, and contracts with TEDAŞ and ETKB. For this reason, after the first application of BOT model, no new BOT project could be implemented between 1989-1996.<sup>412</sup> The Aksu hydroelectricity plant, the first application of the BOT model, started to operate on December 8, 1989 with 13 MW installed power, has contract for 49 years, until 2039.<sup>413</sup> After this first application, many others followed until 2001, and 24 BOT plants had a 2387,83 MW installed power in total. A complete list of BOT, TOR and BO plants which were contracted before the EPK are below (see Table 4.1).

Table 4.1 List of BOT, BO and TOR plants in Turkey (Source: ETKB<sup>414</sup>)

| Plant Name                            | Installed Power (MW) | Contract Date (d.m.y) | Source      |
|---------------------------------------|----------------------|-----------------------|-------------|
| <b>BOT Plants (Total: 2387,83 MW)</b> |                      |                       |             |
| Aksu Çayköy                           | 15                   | 19,02,1986            | Hydraulic   |
| Hasanlar                              | 9,35                 | 18,06.1987            | Hydraulic   |
| Kısık                                 | 9,6                  | 18,08.1988            | Hydraulic   |
| Ahiköy 1-2                            | 2,1 – 2,5            | 13.08.1990            | Hydraulic   |
| Sütçüler                              | 2                    | 14.06.1991            | Hydraulic   |
| Gaziler                               | 11,1                 | 04.06.1992            | Hydraulic   |
| Esenyurt                              | 180                  | 18.05.1993            | Natural Gas |
| Berdan                                | 10                   | 15.11.1993            | Hydraulic   |
| Çamlıca 1                             | 84                   | 09.09.1994            | Hydraulic   |
| Gönen                                 | 10,6                 | 05.02.1996            | Hydraulic   |
| Marmara Ereğlisi (Trakya)             | 478                  | 16.02.1996            | Natural Gas |
| Suçatı                                | 7                    | 31.05.1996            | Hydraulic   |
| Gebze Ova                             | 253,4                | 31.05.1996            | Natural Gas |
| Tohma Medik                           | 12,5                 | 10.06.1996            | Hydraulic   |
| Marmara Ereğlisi (Uni-Mar)            | 478                  | 18.06.1996            | Natural Gas |
| Fethiye                               | 16,5                 | 30.07.1996            | Hydraulic   |
| Çal                                   | 2,2                  | 19.03.1998            | Hydraulic   |

<sup>412</sup> TETAŞ, 2009 Yılı Faaliyet Raporu, TETAŞ, 2010, pg. 21.

<sup>413</sup> Aksu Enerji, Tarihçe, Aksu Enerji, <http://www.aksuenerji.com.tr/sayfa/tarihce>, accessed on January 10, 2021.

<sup>414</sup> The data was obtained from the ETKB through an official appeal (Appeal No: 1800847975).

|                                     |       |            |               |
|-------------------------------------|-------|------------|---------------|
| Dinar 2                             | 3     | 30.07.1998 | Hydraulic     |
| Alaçatı                             | 7,2   | 30.07.1998 | Wind          |
| Girlevik 2                          | 11,58 | 11.02.1999 | Hydraulic     |
| Bozcaada                            | 10,2  | 13.06.2000 | Wind          |
| Yamula                              | 100   | 05.10.2000 | Hydraulic     |
| Birecik                             | 672   | 04.10.2001 | Hydraulic     |
| <b>BO Plants (Total: 5810 MW)</b>   |       |            |               |
| Adapazarı                           | 770   | 08.10.1998 | Natural Gas   |
| Gebze                               | 1540  | 08.10.1998 | Natural Gas   |
| İzmir                               | 1520  | 08.10.1998 | Natural Gas   |
| Ankara (Baymina)                    | 770   | 08.10.1998 | Natural Gas   |
| Sugözü İskenderun                   | 1210  | 07.01.1999 | Imported Coal |
| <b>TOR Plants (Total: 649,8 MW)</b> |       |            |               |
| Hazar 1-2                           | 29,8  | 08.08.1996 | Hydraulic     |
| Çayırhan                            | 620   | 11.01.1999 | Lignite       |

Table 4.1 (continued)

Despite the slow pace of development in terms of BOT contracts, this model of public-private partnership still created some political economic side effects which affected the liberalisation period after 2001. These contracts were ad hoc examples of opening space for the private companies in a publicly-owned sector. First of all, neo-patrimonial political culture and clientelistic patterns, with its' side effects, have always affected the economic performance in Turkey.<sup>415</sup> In this vein, these contracts did not include a competitive procedure; they were exploited by the politicians to sustain the existing clientelistic patterns.<sup>416</sup> Also, the guarantee of purchase in these contracts included front loaded tariffs in order to allow the investors to compensate the cost of investment in a shorter period of time. Some tariffs were so high in the early stages that the investors compensated their investment only in a few years' time. The problem of high initial prices was exacerbated by the high cost of

<sup>415</sup> Ziya Öniş, "Domestic Politics versus Global Dynamics: Towards a Political Economy of the 2000 and 2001 Financial Crisis in Turkey", Ziya Öniş and Barry Rubin (eds.), *The Turkish Economy in Crisis*, New York, Routledge, 2003, pg. 2.

<sup>416</sup> Efe Çakarel and Joshua House, *IPP Investment in Turkey's Electric Power Industry*, Freeman Spogli Institute (Stanford University), Working Paper 32, 2004.

capital which reflected the high international risk rating of Turkey.<sup>417</sup> Some observers describe the creation of BOT as a “myopic political move”, since this system was developed just before attempting liberalisation.<sup>418</sup> However, perhaps, the intention was already to distribute guaranteed business opportunities to the rent seeking companies to revive or recreate the existing clientelistic patterns deliberately.

The term bricolage is a useful one to understand this period in the Turkish electricity sector. It implies the creative use of already existing resources regardless of their original purpose.<sup>419</sup> According to Sönmez, Turgut Özal (Turkish prime minister between 1983-1989, and president until 1993), for example, was a political bricoleur since he used the existing ways of doing things for new purposes and in new contexts, instead of creating radically new structures. Sönmez explains that ad hoc was the attribute of those policy instruments, which were inserted into an existing system, which might or might not fit into it, but became its components.<sup>420</sup> This strategy enabled policy makers to benefit from the advantages of incrementalism; it helped to overcome potential legal or public resistance, allowed attracting private investors without complete liberalisation, and provided with flexibility against new or unforeseen challenges during the process.<sup>421</sup> At the end of the day, what these contracts achieved in the Turkish energy sector was more than concrete investments; they made the unthinkable thinkable, by corroding the existing practices slowly.<sup>422</sup> Sönmez seems converging with this view and regards Özal’s main

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<sup>417</sup> İzak Atiyas, *Reforming Turkish Energy Markets: Political Economy, Regulation and Competition in the Search for Energy Policy*, New York, Springer, 2012, pg. 22.

<sup>418</sup> Ulusoy and Oğuz, “The privatization of electricity distribution in Turkey”, pg. 5025.

<sup>419</sup> Ümit Sönmez, “The Political Economy of Market and Regulatory Reforms in Turkey: The Logic and Unintended Consequences of Ad-hoc Strategies”, *New Political Economy*, Vol. 16, No. 1 (2011), pg. 103.

<sup>420</sup> Ibid., pg. 104.

<sup>421</sup> Ibid.

<sup>422</sup> Atiyas, op. cit., pg. 23.

success as making possible certain policies which were considered illegitimate during 1960s and 1970s.<sup>423</sup>

Although BOT, TOR and BO contracts seem successful in terms of opening new spaces for the Turkish private sector, they seem dubious since they faced with many legal inquires and financial inspections. The matter grew so much that two former ministers of energy has been judged by the Supreme Court, as a rare instance in Turkey.<sup>424</sup> Especially after the adoption of EPK, those contracts were questioned by a number of governmental and non-governmental institutions, including media outlets which developed an increasingly sceptical attitude towards them. At the beginning, the Turkish media seemed more supportive to these plants.<sup>425</sup> Later, starting from 2003-04, many negative news reports started to appear.<sup>426</sup> This was largely created by the changing approach of state to these contracts. A report of the State Supervision Commission, which is directed by the President of the Republic of Turkey and has the right to inspect the public bodies, made a significant contribution to the changing approach.

The President of the time, Ahmet Necdet Sezer, ordered the commission to prepare a report about these contracts and the commission prepared a report titled "Investigation Report about the Implementation of Build-Operate-

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<sup>423</sup> Sönmez, op. cit., pg. 110.

<sup>424</sup> Supreme Court Decision, Decision No: 2007/1, <http://www.anayasa.gov.tr/files/pdf/Ydivan2004-3.pdf>.

<sup>425</sup> "ENKA'nın dev enerji yatırımının temelini Yılmaz attı", *NTV-MSNBC*, July 19, 2000, <http://arsiv.ntv.com.tr/news/18531.asp>, accessed on January 21, 2021; "Şarık Bey'i Türkiye'nin elektrik kralı yapacak temel", *Hürriyet*, July 20, 2000, <http://www.hurriyet.com.tr/ekonomi/sarik-beyi-turkiye-nin-elektrik-krali-yapacak-temel-39169416>, accessed on January 21, 2021.

<sup>426</sup> Yelda Ataç, "Hükümet altı santrala daha el koyacak", *Hürriyet*, October 22, 2003, <http://www.hurriyet.com.tr/ekonomi/hukumet-alti-santrala-daha-el-koyacak-178704>, accessed on January 21, 2021; "DDK: Enerjide kamu yararı gözetilmedi", *NTV-MSNBC*, October 17, 2003, <http://arsiv.ntv.com.tr/news/239461.asp>, accessed on January 21, 2021; Funda Özkan, "Sezer enerji piyasasını denetliyor", *Radikal*, January 2, 2003, <http://www.radikal.com.tr/yazarlar/funda-ozkan/sezer-enerji-piyasasini-denetliyor-656261/>, accessed on January 21, 2021.



Transfer, Build-Operate, and Transfer of Operating Rights in the Field of Electricity Generation".<sup>427</sup> The report criticised these contracts harshly and claimed that the state would lose money inappropriately. Some media reports prepared based on the report of the commission claimed that the state would pay \$19 billion to these plants and the owners of these plants would make \$5 billion unlawful profit during their 20 years service time.<sup>428</sup> According to another report prepared by the Turkish Court of Accounts in 2004, these plants had already caused \$2.3 billion loss until 2002.<sup>429</sup> Although the government intended to renegotiate the electricity purchase price with these plants, the contract owners did not accept decreasing the price. Therefore, in order to lessen the cost of these contracts, the government searched for a number of options including nationalisation.<sup>430</sup> Yet, it is not possible to determine the cost of these contracts, because, apart from observable material costs, they caused invisible effects such as weakness of entrepreneurial activity in the country.<sup>431</sup>

On February 5, 2001, the Council of Ministers decided to unbundle TEAŞ into three companies as Electricity Generation Company (EÜAŞ, in its Turkish

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<sup>427</sup> The number of the report is 2003/6. This report was removed from the website of the Presidency in 2007 or in 2008. Later, all reports prepared by the State Supervision Commission were removed from the website in November 2017.

<sup>428</sup> Yelda Ataç, "Denetleme Kurulu yakaladı, dört santrale el koyuluyor", *Hürriyet*, October 21, 2003, <http://www.hurriyet.com.tr/ekonomi/denetleme-kurulu-yakaladi-dort-santrale-el-koyuluyor-178503>, accessed on January 21, 2021; Yelda Ataç, "Hükümet altı santrale daha el koyacak", *Hürriyet*, October 22, 2003, <http://www.hurriyet.com.tr/ekonomi/hukumet-alti-santrale-daha-el-koyacak-178704>, accessed on January 21, 2021.

<sup>429</sup> This report was accepted at the General Assembly of the Court on February 26, 2004, with number 5088. Interestingly, the decision cannot be reached through the court's website, unlike other decisions, including the previous and next decisions (5087 and 5089). For some news on the issue: Necmettin Çakmak, "Enerjide YİD modeli soygun", *Milli Gazete*, July 8, 2006, <https://www.milligazete.com.tr/haber/732286/enerjide-yid-modeli-soygun>, accessed on January 21, 2021; "Skandal santrallerin faturası 2.3 milyar dolar", *Yeni Şafak*, July 11, 2004, <https://www.yenisafak.com/ekonomi/skandal-santrallerin-faturasi-23-milyar-dolar-2734822>, accessed on January 21, 2021.

<sup>430</sup> Ataç, "Denetleme Kurulu yakaladı, dört santrale el koyuluyor"; Ataç, "Hükümet altı santrale daha el koyacak"; "Skandal santrallerin faturası 2.3 milyar dolar", *Yeni Şafak*.

<sup>431</sup> Tamer Çetin and Fuat Oğuz, "The politics of regulation in the Turkish electricity market", *Energy Policy*, Vol. 35 (2007), pg. 1764.

acronym), Turkish Electricity Transmission Company (TEİAŞ, in its Turkish acronym), and Turkish Electricity Trading and Contracting Company (TETAŞ, in its Turkish acronym).<sup>432</sup> It was planned that the assets of EÜAŞ and TEDAŞ would be privatised. At this point, the Turkish electricity sector was very close to adapting to the third organising principle, both ideologically and institutionally.

#### **4.3.2: Reform Period**

The most fundamental step towards electricity liberalisation was taken with the adoption of EPK on February 19, 2001.<sup>433</sup> Before the EPK, several Turkish governments from different political backgrounds have tried to incorporate the private entrepreneurs into the electricity sector; in this sense the EPK was not the first of its kind. On the other hand, what was the distinctive feature of the EPK was its aim and scope. Its aim, contrary to the ad hoc solutions of 1980s and 1990s, was to find a permanent solution to the chronic problems of the sector. In order to achieve this goal, it took a wider scope of radical steps which changed the sector radically. Above all, what the EPK aimed was to restructure the Turkish electricity sector in accordance with the third organising principle of the electricity industry: private ownership-market interaction. It aimed to create a financially sound and transparent electricity market operating in a competitive environment under provisions of civil law.<sup>434</sup>

One of those fundamental steps is the establishment of a specialised regulatory agency in the electricity sector; later, with the enactment of a new law about natural gas (Law 4646), this agency, Energy Market Regulatory Authority

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<sup>432</sup> Resmî Gazete, March 02, 2001.

<sup>433</sup> Resmî Gazete, March 03, 2001.

<sup>434</sup> Ercüment Camadan and İbrahim Etem Erten, "An evaluation of the transitional Turkish electricity balancing and settlement market: Lessons for the future", *Renewable and Sustainable Energy Reviews*, Vol. 15 (2011), pg. 1326.

(EPDK, in its Turkish acronym), became responsible from the entire energy sector except coal. The EPDK is defined as “administratively and financially independent”, in the EPK (Article 4, Law No 4628). The first president of the newly-established EPDK, Yusuf Günay, and six members of the board were appointed on June 6, 2001, three months after enactment of the law.<sup>435</sup> The term of the president is six years, board members can be re-elected after their term. The primary duty of the EPDK is to supervise the energy sector to increase and sustain competition. In this sense, it is responsible from issuing new licences for generation, distribution and retail activities, and determines tariffs for some activities in these segments such as third party access, and regulated prices for end users.

The EPK brought a full-scale unbundling of the electricity sector as generation, transmission, distribution, and retail. Since the only economically competitive segments are generation and retail, the law targeted creation of competition in these, while leaving transmission and distribution regulated. Private generation companies which were licensed by the EPDK could build power plants and sell the electricity to private retail companies. Alongside unbundling, the EPK preferred accounting separation between different operations of the same company; this was a necessity especially for tariff regulation. The ultimate end-user prices were required to reflect all costs. The law limited the foreign ownership in the sector and did not allow foreign real and legal entities to have control power.

Another change was the creation of an electricity market itself; thus, it became possible to trade electricity literally. Similar to the New Electricity Trade Arrangements system of Britain, the EPK did not envisage a compulsory national pool market, but instead, opted for bilateral agreements and a complementary balancing power market for real time balancing. Furthermore,

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<sup>435</sup> Resmî Gazete, November 2, 2001.

the law limited the market share of the each generator with 20% of the previous year's installed power, thus aimed at preventing market concentration.

The EPK was sensitive about protecting the market structure not only in terms of protecting new entrants to the market, but also in terms of creation of price in the market. The law preferred direct cash refunds in cases where consumers were needed to be supported in some regions or in line with certain objectives, deliberately avoided from affecting the prices, and abolished all subsidies (Law No 4628, Article 13/c). Besides, it prohibited new treasury guarantees, but the treasury guarantees provided to BOT, TOR, and BO contracts maintained as stranded costs in the new era (Law No 4628, Provisional Article 8). TETAŞ was commissioned to purchase the expensive electricity generated within the framework of these contracts, balance the price with cheap hydroelectricity generated by EÜAŞ and sell to distribution companies. In this respect, TETAŞ was designed as a transitory company in the law. Nevertheless, it evolved into a means of intervention of the state shortly after. Later in 2018, TETAŞ was superseded, and was taken over by EÜAŞ.<sup>436</sup>

On March 17, 2004, Supreme Planning Council adopted a strategy paper titled "Electricity Energy Sector Reform and Privatisation Strategy Document".<sup>437</sup> This document served as an implementation guide by further elaborating the law 4628. The strategy document emphasised the significance of privatisation and declared that the privatisation would start from the distribution infrastructure, and then be followed by generation. The reason for this choice was to create private sector counterparts for generation companies. Another reason was the atmosphere of the time; there were claims of corruption about BOT, TOR, and BO plants, and all spot lights were on the energy bureaucrats who might be

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<sup>436</sup> Ibid., July 9, 2018.

<sup>437</sup> ETKB, *Elektrik Enerjisi Sektörü Reformu ve Özelleştirme Strateji Belgesi*, ETKB, <http://www.enerji.gov.tr/File/?path=ROOT%2F1%2FDocuments%2FBelge%2FElektrik Enerjisi Sektörü Reformu ve Ozellestirme Strateji Belgesi.pdf>, accessed on August 3, 2018.

hesitant about signing new contracts. The document highlighted privatisation rather than competition as a reflection of the general expectation from the early reforms: strengthening public finance.

Apart from this, the document erected the main pillars of the transition period. These included leaving stranded costs of pre-reform period guarantees of purchase to TETAŞ. It introduced a price equalisation scheme as a transitory precaution in order to sustain a national tariff and envisaged full market openness until 2011. It also assured that the focus of privatisation would not be revenue maximisation. The document planned to start the privatisation of distribution companies until March 2005, and complete in mid-2006, before starting the privatisation of generation companies. A law targeting the development of renewable energy sources (No 5346) followed on May 10, 2005 and required the distribution companies to buy a certain rate of their demand from renewable energy generators.<sup>438</sup>

The first application of market mechanism in the Turkish electricity market was only possible through an earlier version of Balancing and Settlement Regulation which was adopted in November 2004.<sup>439</sup> The Balancing and Settlement System started to operate on August 1, 2006 and was administered by TEİAŞ until 2015.<sup>440</sup> The real time balancing was realised in this market, together with a day-ahead planning concept, and accounts among the market participants were settled by the Market Financial Reconciliation Centre (PMUM, in its Turkish acronym). The accepted offers created a system marginal price, and the market operator calculated three reference average prices at the end of each month as day, peak, and night. Day referred to the hours between 06-17, peak hours were 17-22, and the night was 22-06. On February 14, 2008, Supreme Planning

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<sup>438</sup> Resmî Gazete, May 18, 2005.

<sup>439</sup> Ibid., November 3, 2004.

<sup>440</sup> Ibid., August 1, 2006.

Council issued a decision (Decision No 2008/T-5) about transition to cost-based pricing mechanism for public energy companies. Shortly after, in July 2008, a new law (No 5784) changing some articles of the law 4628 was enacted.<sup>441</sup> Also in 2008, privatisation of electricity distribution companies started with three years delay; the preferred method was TOR-based share sale model which is called as “TSS model” in literature.

Later in April 2009, a new version of the Balancing and Settlement Regulation was adopted, making fundamental changes.<sup>442</sup> With the new system, effective from December 2009, day-ahead and balancing markets were separated, and the former started to operate on December 1, 2011. It was envisaged that the bulk of the balancing would be realised in the day-ahead market and the balancing power market (DGP, in its Turkish acronym) would balance the real time imbalances only. In the new system, the average prices were issued on hourly basis, whereas there were just three time periods in the previous one. In addition, demand-side participation became possible in the new day-ahead market; consumers might bid price-sensitive schedules. However, contrary to the expectations, many private generators, preferred to sell their electricity at the day-ahead market, instead of preferring bilateral contracts. Thus, it became a de facto spot market for electricity where the necessary price signals were created. During these processes, starting from 2008, and intensifying in 2010, some small-scale hydroelectricity plants were privatised and privatisation of the remaining distribution regions was completed after four years of delay.

In May 2009, Supreme Planning Council adopted a new strategy paper, titled “Electricity Energy Market and Security of Supply Strategy Paper”. The document reiterated implementation of cost-based pricing mechanism, emphasised capacity mechanism, postponed 100% market openness to 2015,

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<sup>441</sup> Ibid., July 26, 2008.

<sup>442</sup> Ibid., April 14, 2009.

extended the implementation of price equalisation scheme, targeted completion of interconnection lines, prioritised the utilisation of domestic sources including lignite reserves and renewable sources. Later, in 2011, privatisation of large-scale generation plants started and continued throughout 2012.

A new Electricity Market Law (No 6446) ('new EPK', hereafter) was enacted on March 14, 2013.<sup>443</sup> The new EPK made significant changes in the sector by annulling the articles of the first EPK except the ones about the EPDK. It increased unlicensed electricity generation limit to 1 MW, from 500 KW. With the new EPK, the retail and wholesale licences were united under "supply" license, distribution and supply activities were unbundled, and autoproducer license was abolished. In addition, preliminary license system, a new step in the licensing process, was introduced in order to accelerate the investments of the 'real' investors by preventing license trading. The new EPK envisaged the foundation of an energy exchange in İstanbul which started to operate in late 2015. The Turkish Energy Exchange (EİAŞ, in its Turkish acronym) was planned to increase liquidity in the market, and to integrate the financial derivatives to the sector. The new EPK extended the price equalisation scheme until the end of 2015, and authorised the Council of Ministers to extend it for five more years. Thus, the first signs of slow down appeared after almost 15 years of successful liberalisation, signalling the coming stagnation. Another incoherent act with full liberalisation was discriminating the state electricity generation company EÜAŞ positively from the private ones, by allowing it to have a market share more than 20% while prohibiting the private generators (Law No 6446, Article 7/5).

On September 1, 2015, EİAŞ started its operations, and this was followed by the initiation of intra-day electricity market on July 1, 2016, within EİAŞ. Shortly after these significant advancements towards liberalisation, another law

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<sup>443</sup> Ibid., March 30, 2013.

about electricity market was enacted on June 4, 2016 (No 6719), and made some changes in the technical issues.<sup>444</sup> After these developments, the Turkish electricity market has matured to a considerable degree and the market structure has been as shown in Figure 4.19. One of the most important changes was reappearance of market distorting elements in the shape of incentives. The law 6719, with article 22, prepared the ground for incentives to the lignite plants which have always been preferred by the Turkish governments in terms of creating employment while assuring supply security since lignite is an abundant domestic source. However, regardless of the reasons, be it environment or security, any incentive is against complete liberalisation. With some preliminary signs in 2015, stagnation in the process became more visible in 2016.

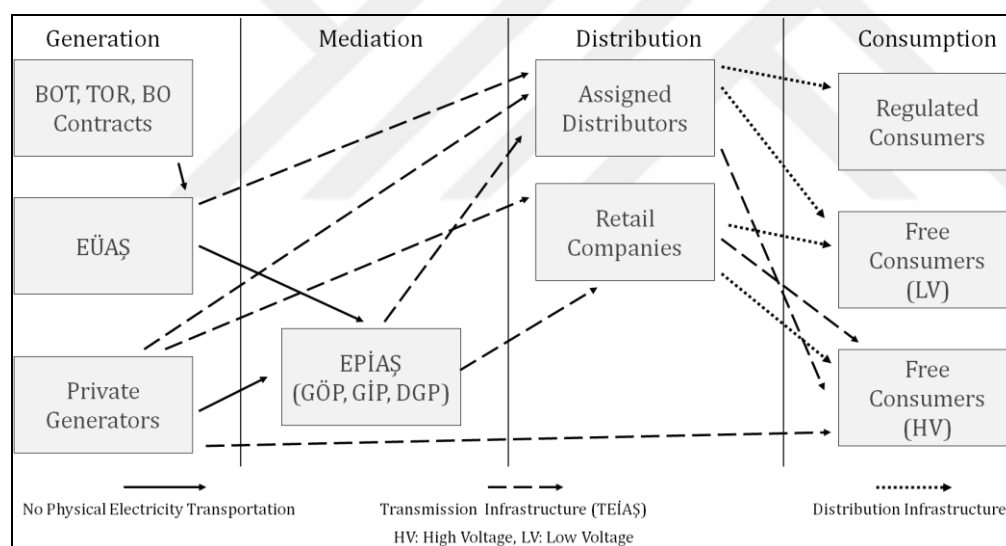


Figure 4.19 Current Structure of the Turkish Electricity Market (Source: Own Elaboration)

In August 2016, with the decision of Council of Ministers (No 2016/9096), TETAŞ has become responsible from purchasing 6 billion kWh electricity from

<sup>444</sup> Ibid., June 17, 2016.



lignite power plants, at 185 TL/MWh price.<sup>445</sup> This decision has been updated later at the end of 2017, and later in the following years, and the purchasing price has been increased to 201,35 TL/MWh, and the amount has been limited to 50% of the plants' generation in the previous year.<sup>446</sup> To the detriment of liberalisation, decisions like these have empowered the rationale underlying the existence of TETAŞ, which was defined as an element of the transitory period at the beginning of the reform process in 2001. In 2017, the first BO contracts started to expire. Thus, the percentage of the electricity traded in the market is likely to increase in a few years' time. In January 2018, the capacity mechanism regulation was adopted in the electricity market, mainly for lignite and natural gas plants.<sup>447</sup> This mechanism has been applied by many other countries including the EU members with different motivations such as providing an incentive to investors or providing some power plants with a minimum revenue in order to maintain their operability for the sake of supply security. For Turkey, both of them were true. Thus, certain types of electricity generation plants have obtained some degree of guaranteed revenues from the public, making the stagnation in the process more explicit. However, free consumer limit has been decreased steadily (see Table 4.2).

Table 4.2 Evolution of the Free Consumer Limit (Source: EPDK)

| <b>Year</b> | <b>Free Consumer Limit (kWh)</b> |
|-------------|----------------------------------|
| 2002        | 9.000.000                        |
| 2003        | 9.000.000                        |
| 2004        | 7.800.000                        |
| 2005        | 7.700.000                        |
| 2006        | 6.000.000                        |
| 2007        | 3.000.000                        |
| 2008        | 1.200.000                        |
| 2009        | 480.000                          |
| 2010        | 100.000                          |

<sup>445</sup> Ibid., August 9, 2016.

<sup>446</sup> Ibid., December 2, 2017.

<sup>447</sup> Ibid., January 20, 2018.

|      |        |
|------|--------|
| 2011 | 30.000 |
| 2012 | 25.000 |
| 2013 | 5.000  |
| 2014 | 4.500  |
| 2015 | 4.000  |
| 2016 | 3.600  |
| 2017 | 2.400  |
| 2018 | 2.000  |
| 2019 | 1.600  |
| 2020 | 1.400  |
| 2021 | 1.200  |

Table 4.2 (continued)

### 4.3.3: Indicators of Stagnation

In spite of this achieved level of maturity in the Turkish electricity market, pace of reform weakened and liberalisation regressed in some instances even, roughly after 2016. For this reason, the thesis claims that there has been stagnation in the Turkish electricity market liberalisation, and divides the liberalisation process into two as introduction and stagnation. Therefore, before proceeding, why the main attribute of the second phase is stagnation, and what the term stagnation means should be clarified conceptually; only then the concrete indicators of which can be scrutinised better.

Basically, ‘stagnation’ points out to a slowdown in the liberalisation process in comparison to the pace of reform at the introduction phase. In this sense, it is important to note that stagnation is employed in a relative meaning, rather than an absolute measure. That is to say, the occurrence of stagnation in the reform process does not necessarily imply a net regression from the achieved level of liberalisation at every single situation; it can include a slow advancement in some instances even. However, similar to the stagnation in economics literature, the advancement is only at an insufficient degree compared to the normal times. For example, if a ten unit of asset increases one more unit, this means 10% increase and expresses a rapid development. Yet, if a one-hundred unit of asset increases one more unit, this corresponds to 1% increase only, and expresses a

slowdown, when compared to the previous increases. In this sense, since the achieved level of liberalisation corresponded to a certain degree of maturity at the previous phase, small steps which have been regarded as groundbreaking once, cannot be regarded even significant at this phase, naturally. Furthermore, apart from stagnation, some instances of net regression from the achieved level of liberalisation were present as well. At the same time, most importantly, incompleteness of liberalisation process after 20 years of reform is itself a significant indicator of stagnation on its own.

After defining what stagnation corresponds to abstractly, it needs to be exemplified concretely to show what it specifically is. For this reason, some of the major indicators of stagnation will be named here. At this point, it should be kept in mind that these indicators do not constitute a sharp distinction between the introduction and stagnation phases, but are used to delineate the approximate borders of two different phases of the same liberalisation process. The major indicators can be grouped under two categories: Incompleteness of liberalisation, and increasing role of market-distorting elements. The former includes delays in the full market opening, while the latter is about increasing need for incentives and state intervention. Since the private investors seem right in requesting public support in a semi-liberal market, the latter is a product of the former to a great extent. In a nutshell, the problems which both created and were created during the stagnation phase were low electricity prices for generators, realisation of the exchange rate risk for distributors and generators, and disappearance of free market conditions for suppliers. The mentioned fundamental indicators of stagnation will be shown quantitatively at the related parts of the following chapters, in more detailed ways.

In addition to these, almost a quarter of the electricity generated in Turkey still belongs to the public electricity generation company, EÜAŞ, as a proof of incomplete liberalisation. This affects not only the generation structure, but also the price structure since the public generation company tries keeping the

electricity prices low. Here, it is necessary to note that a certain amount of generation capacity will always belong to public generation company because hydroelectricity plants which are installed on the transboundary rivers, such as Euphrates and Tigris, are not expected to be privatised due to concerns about foreign and security policies.

Apart from these concrete indicators, there are also some administrative thresholds to regard the period after 2015 as a new, separate phase in the liberalisation process. For example, a special exchange for energy, Energy Exchange İstanbul (EPIAŞ), started to operate in late 2015, and the third implementation period (for distribution companies) started at the beginning of 2016.<sup>448</sup> The opening of EPIAŞ is historic because for the first time in Turkey's energy history, electricity started to be bought and sold at a specialised market on real time. The start of third implementation period for distribution companies is significant because it is the first implementation period after all of the distribution companies were transferred to the private sector. These administrative developments legitimise considering the post-2015 period a new, separate phase in which the Turkish electricity market has achieved a degree of maturity as well. The next two chapters will examine the Turkish electricity market liberalisation from a perspective of global power structures.

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<sup>448</sup> An implementation period is a comprehensive infrastructural investment plan determined by the EPDK and in which total investment requirement of the distribution companies, the maximum revenue a distribution company can obtain (revenue cap), and targeted rate of theft and losses for each distribution region for the determined period of time is defined.

## **CHAPTER 5**

### **STRUCTURAL POWER AND INTRODUCTION OF ELECTRICITY LIBERALISATION IN TURKEY**

Previous chapters have examined the scope of neoliberalism and global neoliberal turn, effects of liberalisation on the electricity sector, the concept of structural power, drivers of change in the energy structure, and Turkey's energy outlook with reference to the country's status in the electricity sector. This chapter will cover the introduction of liberalisation period (2001-15), and will revolve around the question why and how electricity liberalisation, as a foreign-inspired policy, influenced Turkey's domestic energy policy preferences. Main political economic factors influencing the introduction of liberalisation, and their interactions will be identified in this chapter. The organising question of the chapter is 'how and why did global power structures influence Turkey's electricity sector policy towards liberalisation?', and the chapter consists of two sections. The first section will analyse external political economic factors which affected Turkey's domestic energy policy preferences from the perspective of structural power; and the following section will reveal how the internal economic and political factors converged with those in the external realm.

Thus, answering the organising question of this chapter will contribute to answering the main research question which is 'why and to what extent do changes in the global power structures influence domestic energy policy preferences of Turkey?' by way of explaining how a convergence between internal and external political economic factors occurred prior to the actual liberalisation, triggered the reform, and sustained it. That is to say, this chapter

will shed light on the first part of the main argument by showing in what ways global power structures create a tendency in Turkey to adapt to changes in the energy structure with reference to the changing organising principle of the electricity industry which is a subsector of energy. In this sense, the mechanisms through which structural power affects agents' behaviours and preferences will be discovered through the case of a developing country, in order to contribute to the theory by filling the gaps in a style of theory refinement.

For this reason, the main goal of this chapter is to identify the political economic factors which triggered the process in Turkey with their roots in external and internal realms. To achieve this goal, external economic, external political, internal economic and internal political factors are analysed. As mentioned before, external and internal realms are taken as independent and intervening variables, respectively, and the effects of independent variable is studied from the perspective of structural power. Keeping this in mind, this chapter will scrutinise how the relationships between these variables influenced the dependent variable, electricity liberalisation. It is seen that intervening variable did not make a distorting effect as long as a disciplining edge existed in the external realm, and that all four areas affected the introduction of electricity liberalisation process in a supportive way. During the introduction phase, the economic realm had a superior role to the political realm, and the external and internal economic factors had a more decisive role than the others. Therefore, the bulk of this chapter will be devoted to them.

### **5.1: External Realm**

The electricity liberalisation policy, as it was shown previously (see Chapter 2.3), was not a policy prescription developed in Turkey. On the contrary, it emerged parallel to the global neoliberal turn, and was 'injected' to Turkey from abroad, by a variety of external, structural factors. This is what makes electricity

liberalisation a foreign-inspired policy. In this sense, it is valuable to analyse which external political economic factors influence Turkey's domestic energy policy orientation in what ways. Throughout the section, it is seen that there was a full convergence between external economic and political factors in urging Turkey towards electricity liberalisation. Susan Strange's structural power concept seems useful in explaining the effects of this full convergence and transferring of a foreign-inspired policy to Turkey through effects of changing global energy structure spontaneously. It is also important to reemphasise that external economic and political factors affect each other interactively; and they can also independently affect the dependent variable, the advancement of electricity liberalisation, as well.

#### **5.1.1: External Economic Factors**

External economic factors were significant for the introduction and advancement of the liberalisation process. Luckily, beyond being supportive, they were even urging Turkey to the electricity sector restructuring through the country's dependent and destitute position in the global finance structure.<sup>449</sup> Turkey, as a typical developing country, has always been in need of concurring with the global financial structure, and the conditions of its internal economic realm have largely been shaped by the external economic outlook. Theoretically, as Strange would have claimed, this was due to Turkey's weak position in the international finance structure, as it was the same for the other similar developing countries. More concretely, at the core of this situation was the enormous need for foreign finance in the country, and the root cause of this need was saving deficiency. This high need for foreign finance made the external economic factors worth to examine in two aspects: the effects of the international financial institutions on Turkey, and the convenience of the external economic realm.

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<sup>449</sup> Özkivrak, *ibid.*, pg. 1340.

At this point, in order to understand Turkey's compatible approach to the external economic factors, the IPE literature provides us with appropriate theoretical lenses. One of them is "structural power" concept, as stated at the previous chapters (see Chapter 3.1). To recapitulate briefly, according to the structural power concept, alongside conventional understanding of power, structural power is:

the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises ... have to operate. ... Structural power, in short, confers the power to decide how things shall be done, the power to shape frameworks.<sup>450</sup>

Structural power conception of Susan Strange consists of two types, as primary and secondary; while the primary power structures consisting of security, production, finance, and knowledge structures, the secondary power structures, a bit arbitrarily, consist of transport systems, trade, energy and welfare structures.<sup>451</sup>

The financial structural power, in its simplest form, is having control over credit. Strange regards credit vital for economic development because, she claims that what is invested in the modern economy is not accumulated capital, but credit which is something creatable.<sup>452</sup> Thus, having power to create credit also brings power to allow or deny other countries the option of spending now and paying back later. The ability of allowing or denying access to credit has become an element of power in international relations, in a more systemic, structural fashion, rather than the relational sense. The financial structural power stems from the existence of an international financial system, and the global financial structure stems from integrity of various national financial markets which behave as if they were one system bound by some shared beliefs and

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<sup>450</sup> Strange, *States and Markets*, pp. 24-25.

<sup>451</sup> For a more detailed explanation about structural power concept and Susan Strange's vision of international political economy, see Chapter. 3.1.

<sup>452</sup> For a more detailed analysis of financial structural power, see Chapter 3.1.



established norms. Therefore, if one country does not meet the expectations of the international financial circles, it becomes harder and more expensive to obtain credit. Also, the level of integrity among financial markets tends to increase instability as a negative by-product. In this way, money (credit) becomes a substitute for power in terms of economic growth.

In this sense, it is necessary to begin by identifying that the international financial structure is mostly conducted by international institutions which also work as gatekeepers, such as the IMF, World Bank, Bank for International Settlements, and Society for Worldwide Interbank Financial Telecommunication (SWIFT). Adapting to this international financial system is so lucrative that countries accept the risks borne by financial volatilities. When countries face with problems, Susan Strange explains, the IMF and World Bank are:

... ready and willing to act as schoolmaster and government inspector, looking for Letters of Intent promising changes in economic policy of a generally deflationary, disciplinary, pro-market and anti-subsidy nature. From long practice with its missions to member countries' finance ministries and central banks - many of whose officials it had at one time trained or welcomed as delegates the Fund was well equipped to send inspection teams to the debtor countries. These were accepted because they alone could issue the stamp of approval that would satisfy the private bankers that it was 'safe' to resume lending, even on a lower scale.<sup>453</sup>

The prescription offered by these institutions, structural adjustment programmes, urges debtor countries to reform their economies in accordance with the norms and rules of the global financial structure (see Chapter 2.2). Since the private investors find less risky to lend to the IMF-approved economic programmes to guarantee paybacks, countries which are in acute need of credit, have little or no chance except obeying the structural adjustment programmes. Hence, countries, especially those with lower bargaining power, are directed structurally, without any use of relational power over them by the dominant

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<sup>453</sup> Strange, *States and Markets*, pg. 112.

ones. The effects of external economic factors on the Turkish electricity liberalisation fit to this framework of structural power well.

Before proceeding to the external economic factors in more detail, it is better to examine what made Turkey's relationship with the international financial structure even more vital for the country's economic wellbeing. The root cause was the saving deficiency in the country. Turkey, due to insufficient domestic savings, has always had a structural need to borrow from the international financial markets to buoy the economic activity and undertake new investments. The OECD agreed with this view and highlighted that low domestic savings made the Turkish economy dependent upon external economic conditions.<sup>454</sup> The gross savings in Turkey, according to the World Bank, has been fluctuating around 20-25%% of the GDP since 2003.<sup>455</sup> Yet, according to official Turkish figures and the OECD, it has been below 20% since 1998.<sup>456</sup> Furthermore, falling saving rate has made the situation even worse in the country. Regardless of these minor differences, the sole consequence created by this situation was dependency upon foreign finance. The low saving rates necessitated obtaining foreign finance to buoy the economic activity by filling the saving-investment gap, and pushed Turkey towards international financial institutions and global money markets. In the former, policy orientations of countries became important, whereas the cost of money was the main, but not sole, determinant in the latter. Because electricity sector restructuring consisted of many huge and capital-intensive ownership transfers, the whole process required suitable credits, and Turkey had no option other than acquiring foreign finance. This was simply why convenience of external economic realm became worth to scrutinise in terms of Turkish electricity market liberalisation. Below,

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<sup>454</sup> OECD, *OECD Economic Surveys: Turkey 2014*, OECD, 2014, pg. 54.

<sup>455</sup> The data was compiled from the World Bank database.

<sup>456</sup> Ministry of Development, *Onuncu Kalkınma Planı Yurtiçi Tasarruflar Özel İhtisas Komisyonu Raporu*, Ministry of Development, Ankara, 2014, pg. 1; OECD, *op. cit.*, pg. 19.

the main external economic factors urging Turkey to electricity liberalisation will be studied in light of this situation.

### ***Effects of International Financial Institutions***

The first external economic factor urging Turkey to electricity liberalisation was the effects of the international financial institutions. Turkey's poor performance in credit ratings and in financing its needs with its own financial resources made it dependent upon the international financial institutions where policies of countries mattered as well. These institutions spearheaded norms and rules of the established international financial structure in their relationships with the debtor countries, as the main projectors of the financial structural power as Strange regarded them. They had two means to project their structural power over the borrower countries; they used carrots and sticks. Using carrots symbolises providing the countries with encouragements and contributions, while sticks symbolising financial enforcement. In broader terms, while carrots making pulling effect, sticks made pushing effect towards a certain policy. Within the framework of the Bretton Woods institutions, carrots were more resorted by the World Bank, while sticks were more used by the IMF. In Turkey's case, both carrots and sticks were used during the introduction period, unlike the stagnation period.

Creating various incentives (carrots) to encourage the countries towards a certain end can be done in some ways such as exploiting the demonstration effect, or directly financing the change. Financing the change strategy serves to decreasing the costs of countries which were pragmatic about making reforms in the electricity sector, but hesitant about shouldering the transaction costs. The most fundamental element is financing the institutional reforms in order to meet the financial costs of the change. These are structural endeavours to reshape an establishment to create a change in practices or mentality in the long term rather than financing specific projects. In order to exemplify the

transformative power of the financial structural power, long electricity restructuring history of Turkey seems a proper example with its roots in the early 1980s, long before the actual reform.

Starting in 1980, Turkey and the World Bank had concluded six Structural Adjustment Loan agreements in five years (two in 1980, 1981, 1982, 1983, 1984) with which Ankara obtained \$1,556 billion in total.<sup>457</sup> The energy sector, with agriculture, played a prominent role in the loan agreements which had some similarities in their emphases. Some of those common features regarding energy were preparing the ground for domestic and international private investors in the sector, increasing the country's capacity in policy making, rationalisation of the public investment programme, and betterment of the energy demand forecast models. In fact, the main purpose of the 'structural adjustment' was to harmonise the national structures in countries with the global structures in the targeted sectors, as Strange analysed in her structural power approach. Exactly in that way, these structural adjustment loans served the purpose and the first electricity liberalisation step was taken by allowing private investors in the energy sector in 1984, before the end of fourth structural adjustment loan agreement. Even before that, a privatisation programme was prepared by Ertan Yülek, at the State Planning Organisation, as early as 1982.

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<sup>457</sup> Agreements can be found on the webpage of World Bank. March 1980 Agreements: <http://documents.worldbank.org/curated/en/227521468164373823/pdf/Loan-1818-Turkey-Structural-Adjustment-Loan-Loan-Agreement.pdf> and <http://documents.worldbank.org/curated/en/227521468164373823/pdf/Loan-1818-Turkey-Structural-Adjustment-Loan-Loan-Agreement.pdf>; May 1981: <http://documents.worldbank.org/curated/en/411561468301563242/pdf/Loan-1987-Turkey-Second-Structural-Adjustment-Loan-Loan-Agreement.pdf>; May 1982: <http://documents.worldbank.org/curated/en/253981468334765244/pdf/Loan-2158-Turkey-Third-Structural-Adjustment-Loan-Loan-Agreement.pdf>; June 1983: <http://documents.worldbank.org/curated/en/429841468308103259/pdf/Loan-2321-Turkey-Fourth-Structural-Adjustment-Loan-Loan-Agreement.pdf>; June 1984: <http://documents.worldbank.org/curated/en/289801468308103814/pdf/Loan-2441-Turkey-Fifth-Structural-Adjustment-Loan-Loan-Agreement.pdf>.

Following the structural adjustment loans, sector-specific adjustment programmes commenced. Within this framework, Turkey and the World Bank concluded “Energy Sector Adjustment Loan Agreement” on June 29, 1987, and Turkey received \$325 million credit from the bank, until 1989.<sup>458</sup> During the introduction period (2001-15), Turkey received \$5,432 billion more from the bank for the projects directly regarding the electricity sector (see Table 5.1). One of the former energy bureaucrats said that these agreements served to persuade Turkish energy bureaucracy to liberalisation to a great extent.<sup>459</sup> Another respondent confirmed that the ideational infrastructure was ready for electricity liberalisation in bureaucracy as early as mid-1990s.<sup>460</sup>

Table 5.1 World Bank Projects in the Turkish Electricity Sector, 1990-2016  
(Source: *World Bank*)

| Project Name                                                    | Support<br>(million \$) | Period    |
|-----------------------------------------------------------------|-------------------------|-----------|
| TEK Restructuring                                               | 300                     | 1991-2001 |
| National Transmission Grid Project                              | 270                     | 1998-2007 |
| Renewable Energy Project                                        | 202.03                  | 2004-2010 |
| Energy Community of South East Europe APL 2                     | 66                      | 2005-2010 |
| Energy Community of South East Europe APL 3                     | 150                     | 2006-2011 |
| Electricity Generation Rehabilitation and Restructuring Project | 336                     | 2006-2011 |
| Electricity Distribution Rehabilitation Project                 | 269,4                   | 2007-2012 |
| Private Sector Renewable Energy and Energy Efficiency Project   | 500                     | 2009-2016 |
| Programmatic Electricity                                        | 800                     | 2009      |

<sup>458</sup> The agreement can be found on the webpage of the World Bank. Energy Sector Adjustment Loan Agreement of June 1987: <http://documents.worldbank.org/curated/en/105211468119938591/pdf/Conformed-Copy-L2856-Energy-Sector-Adjustment-Loan-Agreement.pdf>.

<sup>459</sup> Metin Başlı, Ankara, November 2019, interview.

<sup>460</sup> Oytun Alıcı, Ankara, November 2019, interview.

|                                                                               |       |           |
|-------------------------------------------------------------------------------|-------|-----------|
| Development Policy Loan Program                                               |       |           |
| Second Environmental Sustainability and Energy Sector Development Policy Loan | 700   | 2010      |
| Energy Community of South East Europe Project                                 | 220   | 2010-2015 |
| Private Sector Renewable Energy and Energy Efficiency Project                 | 500   | 2011      |
| Environmental Sustainability and Energy Sector                                | 600   | 2012-2013 |
| Small and Medium Enterprises Energy Efficiency Project                        | 201   | 2013-2019 |
| Small and Medium Enterprises Energy Efficiency Project                        | 3,64  | 2014-2019 |
| Renewable Energy Integration Project                                          | 300   | 2014-2019 |
| Energy Sector Technical Assistance Program – Phase 2                          | 12,98 | 2015-2020 |
| Renewable Energy Integration Technical Assistance Project                     | 1     | 2015-2019 |
| <b>TOTAL: \$5,432 billion</b>                                                 |       |           |

Table 5.1 (continued)

The foreign funds like these helped the Turkish government and private investors to advance the liberalisation period. The acquired foreign resources were distributed in accordance with the needs of the sector and the directions of the creditor institution which represented the global financial structure, and some national institutions such as Turkey Industrial Development Bank (TSKB, in its Turkish acronym) took place in the process as well. Alongside the World Bank, and the IMF, some other regional financial institutions, such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) had also contributed to the reform endeavours of Turkey. For example, the EIB only invested in the Turkish energy sector €2.390 billion between 2002 and 2015.<sup>461</sup>

<sup>461</sup> Data was compiled from the European Investment Bank database: <https://www.eib.org/en/projects/loans/index.htm?>

The financial enforcement, namely using sticks, constitutes core of the disciplining edge of the global financial structural power. This disciplining edge mostly depends upon the conditionality policy which means obliging a borrowing country to make reforms or adopt some policies in return for supplying credits; thus, with the help of reforms, the country will be able to repay its debts and will improve its economic balances (see Chapter 2.1).<sup>462</sup> The disciplining edge of the structure becomes more apparent during crisis times when countries need credit acutely. Therefore, the effects of conditionality policy will be understood better, when taken together with the internal economic factors (see Chapter 5.2.1). The measures to be taken by the borrowing countries are expressed in the Letters of Intent, which are prepared by the borrowing government and sent to the IMF. Therefore, for Turkey, effects of the conditionality policy, in general on the neoliberal reforms and on liberalisation in the electricity sector in particular, can be tracked back by the examination of these letters.

Turkey had written 24 letters of intent since the first one in June 1998, and a new regulatory reform regarding the energy sector was mentioned for the first time in the very first letter in 1998.<sup>463</sup> In the letter, the Turkish government emphasised the obstacles created by the Council of State before the inclusion of private investors in the sector. Interestingly, this letter also claimed that the electricity transmission segment would also be privatised via transfer of operating rights system. This is the only accessible document in which Turkey expressed its intention to privatise its electricity transmission. This plan was later abandoned due to both technical hardships in dividing the transmission infrastructure, and, more importantly, national security concerns.<sup>464</sup>

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<sup>462</sup> IMF, *IMF Conditionality*, IMF, <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality>.

<sup>463</sup> Letter of Intent, June 1998: <https://www.imf.org/external/np/loi/062698.htm>.

<sup>464</sup> Hasan Köktaş, Ankara, March 2020, interview.

In the letters of intent, consecutive Turkish governments (five governments until the last letter), made clear that the country would restructure its electricity sector in a liberal framework, in accordance with the current trends in the international financial structure. The letters can be grouped into three categories in terms of their emphasis on electricity liberalisation. The letters until December 2000, emphasised the electricity privatisation mostly as part of the need for privatisation revenues with a pragmatic approach. The December 2000 letter mentioned a competitive market structure in the electricity sector and the following letters until April 2004 included more detailed comprehensive plans about this target. This second period was also the period during which Turkey received the biggest part of the IMF credits (see Figure 5.1).

However, starting from the April 2004 letter, detailed promises were replaced by vague expressions until the last letter in May 2007. This seems due to decreasing need for the IMF credits; since the acute need for them disappeared and the disciplining edge of the finance structure over Turkey weakened, the preparation and content of the letters became a less significant topic for the Turkish government. The adoption of the first strategy paper in March 2004 could have been influential in this situation as well. During the whole period, Turkey drew 33.850.562.000 SDRs (Special Drawing Right) from the IMF.<sup>465</sup> As of January 2004, this corresponded to \$22.8 billion, to 5.6% of the country's GDP. That is to say, this huge amount of money which was released on the condition that Turkey would make necessary economic reforms, including electricity liberalisation, was of utmost importance for the country.

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<sup>465</sup> Data was collected from the IMF database: <http://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=980&date1key=2018-07-31>.



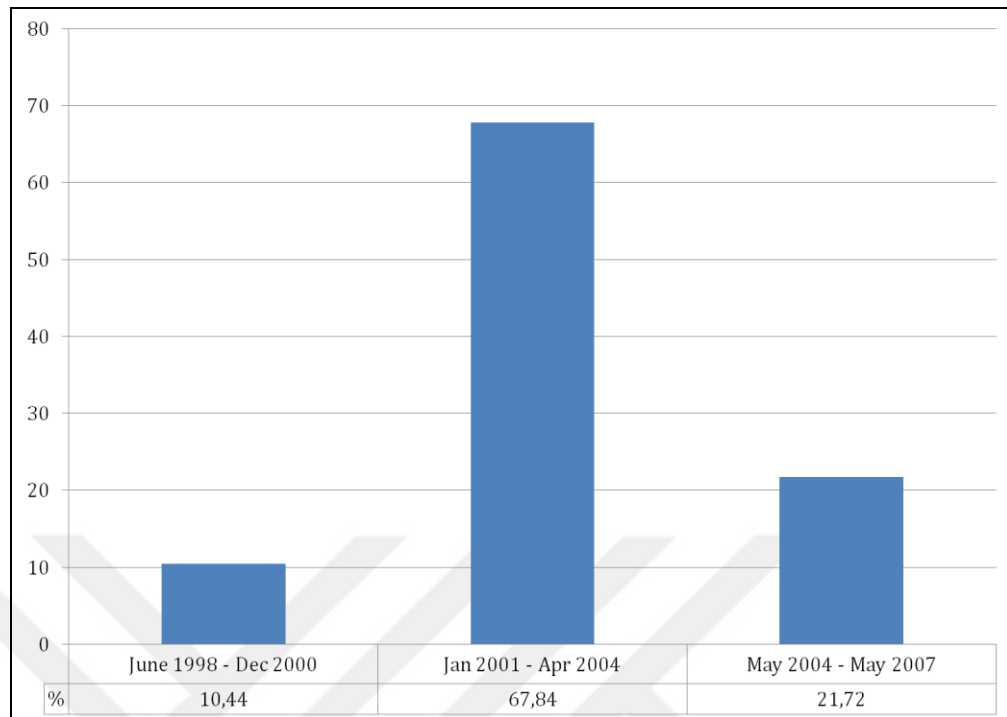


Figure 5.1 IMF Credits Received by Turkey, as % of total, 1999-2008 (Source: *IMF*)

There is a consensus on the effect of the conditionality policy of the IMF on the fate of Turkish electricity liberalisation, in the literature.<sup>466</sup> For example, Sönmez explained that, crises had provided international financial institutions with leverage to impose their own regulatory agenda.<sup>467</sup> In addition to the literature, all of the interviewees confirmed that the international financial institutions had a coercive effect on the Turkish governments and bureaucrats. The representatives of these international financial institutions, some interviewees said, did not come to Turkey to give technical advices on the liberalisation process or to negotiate about the related issues, but to dictate

<sup>466</sup> Atiyas, *Reforming Turkish Energy Markets*, pg. 3; Camadan and Erten, "An evaluation of the transitional Turkish electricity balancing and settlement market", pg. 1325; Özkıvrak, "Electricity restructuring in Turkey", pg. 1340; Çetin and Oğuz, "The politics of regulation in the Turkish electricity market", pg. 1761; Erdoğan, "Regulatory reform in Turkish energy industry: An analysis", pg. 986.

<sup>467</sup> Sönmez, "The Political Economy of Market and Regulatory Reforms in Turkey", pg. 110.

their own terms regardless of what the Turkish side desired or needed. Even some of them implied that they were behaving like a “colonial governor” during meetings with their Turkish counterparts.<sup>468</sup> On the other hand, a former Turkish energy bureaucrat, although he emphasised that he was against the IMF interventions, said that the disciplining edge of the IMF policies rationalised the use of Turkey’s resources indeed, and added that there was an experience sharing definitely.<sup>469</sup> These all showed the influence of international financial institutions over Turkey’s electricity liberalisation policy, during the introduction period.

### ***Convenience of the External Economic Realm***

The second external economic factor which catalysed the Turkish electricity liberalisation was the convenience of the external economic realm. As an indicator of the country’s structural dependency upon the international financial structure, the success of economic programmes in Turkey has largely been bound by the global economic conditions. Structurally, it proved to be very hard for Turkey to attract investments or obtain loans without concurring with the expectations of international investors shaped by the current economic trends and norms, as a reflection of international finance structure. Luckily, starting from early 2000s, until roughly the end of 2015, the finance structure was marked by a period of financial abundance at which governments of the developing countries could raise money more easily. Turkey benefited from this loosening finance structure as the other developing countries did, in terms of both foreign direct investment (FDI) flows, and the cost of money at global markets.

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<sup>468</sup> Metin Başlı, Ankara, November 2019, interview. Some other respondents agreed with this view, without any reservations.

<sup>469</sup> Anonymous former Turkish high-rank energy bureaucrat, Ankara, interview.

The former, FDI flows, has always kept a prominent place at Turkey's economic agenda as an indispensable source of finance, again due to the saving-investment gap created by deficiency in domestic savings. Chronic need for FDI inflow remained as a typical indicator of the relationship between Turkey and the international finance structure. Despite the efforts of all consecutive Turkish governments to attract foreign investments to the electricity sector, a large-scale flow could be possible only after the 2001 reform. This was because of fundamental, structural changes in Turkey towards adapting to the finance structure better. In this structural adaptation, the newly liberalising Turkish electricity sector played a pioneering role in attracting larger portions of FDI flows. Turkey's post-2001 reforms, and particularly electricity reforms among them, "put Turkey on the map" in the eyes of global investors.<sup>470</sup> Obtaining a place on the map was of vital importance, because it served two broader aims: Catching up with the world, and attracting the same capital for which similar countries competing with each other.<sup>471</sup>

Susan Strange explains the rivalry on attracting more FDI than the others as a rivalry between states "more for the means to create wealth within their territory than for power over more territory. Where they used to compete for power as a means to wealth, they now compete more for wealth as a means to power".<sup>472</sup> Furthermore, the above-mentioned effects of international financial institutions made Turkey a secure market for international investors to lend or invest. Indeed, when Turkey's share in the global FDI flows, schedule of the IMF programme, and the liberalisation period are correlated with each other in a temporal manner, the coincidence becomes more visible (see Figure 5.2).

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<sup>470</sup> Duygu Uckun and Mark Doerr, "Emerging Markets: Theory and Practice / Turkey's Reforms Post 2001 Crisis", *Journal of Global Analysis*, Vol. 1, No. 1 (2010), pg. 53.

<sup>471</sup> Ziya Öniş, "Power, Interests, and Coalitions: the political economy of mass privatisations in Turkey", *Third World Quarterly*, Vol. 32, No. 4 (2011), pg. 718.

<sup>472</sup> Stopford, Strange and Henley, *Rival States, Rival Firms*, pg. 1.

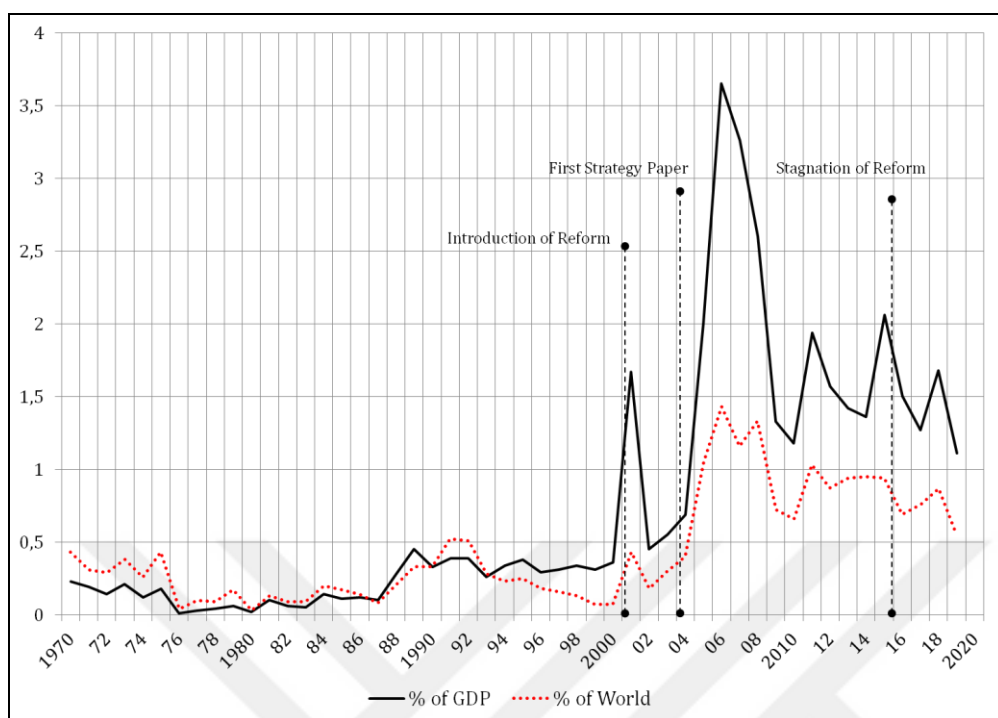


Figure 5.2 FDI Inflows to Turkey, as % of Turkey's GDP and World Total, 1970-2019 (Source: *UNCTAD*<sup>473</sup>)

After 2001 crisis, with the initiation of liberalisation, Turkey's share in world FDI flows started to increase, but this increase became more apparent after the adoption of the first strategy paper in 2004, and it persisted its upward trend until 2008 global crisis. After the crisis, it decreased considerably, but still remained higher than the pre-reform period. In other words, since Turkey could improve its compatibility with the international finance structure, its share in the global FDI flows did permanently improve as well. However, it started to decrease again in a way to remark the stagnation period of liberalisation in 2016. Naturally, those ups and downs were not only due to the electricity sector, the general conditions in the Turkish economy were also influential. Nevertheless, these conditions directly affected the advancement of electricity liberalisation too.

<sup>473</sup> Data was compiled from the UNCTAD database, <http://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/792/index.html>.

The temporal coincidence between three variables, Turkey's share in the global FDI flows, schedule of the IMF programme, and the liberalisation period, is enough to demonstrate the structural role of electricity liberalisation to attract more FDI inflow to Turkey by increasing the country's compatibility with international finance structure. This also proves the literature about the positive response of business activity to liberalisation at a global scale. When a country's competitors liberalise, business activities are attracted to the places where the business can be done more freely, and governments, for this reason, feel a structural pressure to follow the same path not to lag behind.<sup>474</sup> Thus, as the concept of structural power foresees, Turkey, as a developing country, was drawn to a certain policy path structurally, without any resort to relational power by any other state or inter-state actor.

The cost of money was another significant parameter in the successful advancement of the Turkish electricity liberalisation. The cheaper money was, the easier it became for the Turkish private sector both to buy the public assets via privatisation and to undertake greenfield investments. In fact, borrowing from abroad is like hiring the saving deposits of foreign countries for a certain amount of time, in order to meet a demand, or to reach an end. For this reason, lower interest rates serve to the benefits of developing economies better by creating flexibility in the global finance structure. Therefore, the success and sustainability of the Turkish electricity liberalisation were related with the cost of borrowing money from the global financial markets as well.

Fortunately for Turkey, when it initiated the reform policy, interest rates at global money markets were low and were inclined to decrease even more. The above mentioned period of abundance in the finance structure largely contributed to decrease in the interest rates. The introduction phase of the

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<sup>474</sup> Bartolini and Drazen, op. cit., "Capital-Account Liberalization as a Signal", *American Economic Review*, Vol. 87, No. 1 (1997), pp. 138-154.

Turkish electricity liberalisation coincided with these convenient conditions at the international financial structure. The environment created by 1997 crisis in Asia, 1998 crisis in Russia, and 1999 crises in Brazil and Mexico pushed up the global need for lower interest rates; and especially after 2008 global crisis, the interest rates decreased to historical low levels at the global money markets and converged to zero (see Figure 5.3). Furthermore, even negative interest rates were not absent, particularly for Euro. The major central banks, particularly those of the US, Japan, EU, and the UK raised the money supply circulating globally in the finance structure. Parallel to this change in the character of financial structure, interest rates decreased dramatically for the Turkish lira as well.

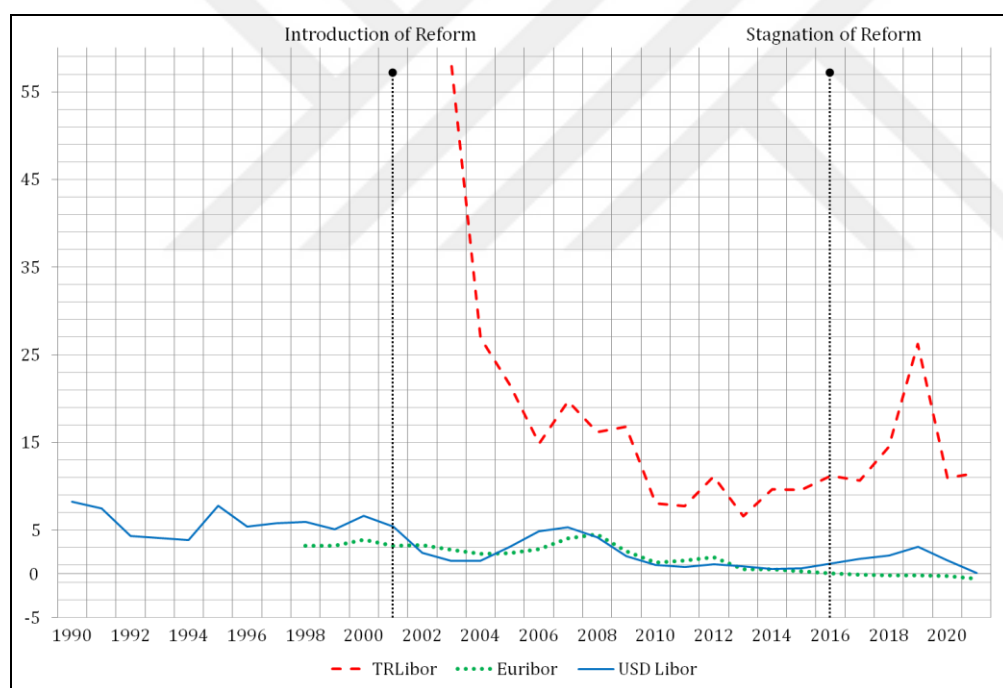


Figure 5.3 Average Libor, Euribor, and TRLibor Interest Rates, as %, 1990-2021  
(Source: Various Sources<sup>475</sup>)

<sup>475</sup> Data was collected from <http://www.trlibor.org/> for TRLibor, from <https://www.emmi-benchmarks.eu/> for Euribor, and from <https://www.global-rates.com/> for USD Libor.

During this cheap money period, especially after quantitative easing period, the Turkish energy investors borrowed huge amounts in the US dollars which later turned into a destabilising factor during the stagnation period (2016-2019). In the global economy, most of the deals and financial flows are made in the US dollar most of the time, as a characteristic feature of the finance structure, and the value of dollar is directly correlated with the conditions of the global economy, as Strange suggested.<sup>476</sup> A high-ranking official from EPIAŞ highlighted this structural effect on the Turkish case, and said that borrowing over the US dollar was “inevitable” for the Turkish entrepreneurs, due to much higher interest rates in the Turkish lira.<sup>477</sup> The Turkish investors preferred taking a risk in the long run, instead of paying a higher interest rate in Turkish lira today.

To sum up, external economic factors were supportive and contributed even positively to the process during the introduction of liberalisation (see Table 5.2). The international financial structure, on the one hand, structurally urged Turkey to liberalise its electricity sector in accordance with the global neoliberal turn (see Chapter 3.2.2), and, on the other hand, provided it with convenient economic means such as cheap credits from international financial institutions, increasing FDI inflow, and low interest rates. In other words, the external economic factors not only pulled, but also pushed Turkey to electricity liberalisation. Thus, Turkey could advance faster towards liberalisation where it was structurally directed to.

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<sup>476</sup> Strange, *States and Markets*, pg. 207.

<sup>477</sup> Fatih Yazıtış, Ankara, February 5, 2020, interview.

Table 5.2 External Economic Factors during the Introduction Phase

| Main Factor                          | Impact     |
|--------------------------------------|------------|
| International Financial Institutions | Supportive |
| Convenient External Economic Realm   | Supportive |

### 5.1.2: External Political Factors

The external political factors encouraged Turkey to electricity liberalisation, as well as serving as an anchor keeping Turkey on the track once it commenced. That is to say, as a part of the independent variable, they positively correlated with the dependent variable. The two major external political factors affecting the liberalisation process were the effects of international organisations and Turkey's EU membership process.

The international organisations, particularly those dealing with the energy issues, helped Turkey to stay with the herd, by observing the emerging trends in, and learning the experiences of the like-minded countries. For example, the EU was such a platform. In this sense, external political factors fit to the framework of Susan Strange's knowledge and energy structures perfectly. Since knowledge structure covers the ideas, norms, and beliefs which are accepted valid and legitimate, the elements of ideational backdrop have direct effects on shaping the political scene as well.<sup>478</sup> Having affected by the developments in the finance and knowledge structures and as a function of them, changes in the organising principle of the energy structure brought some new norms and standards to the electricity business, such as less public ownership and more private sector inclusion in the electricity sector (see Chapter 3.2.2). This meant an increase in the number and variety of actors, and more space for non-state actors, as a consequence of the new "triangular diplomacy", as Susan Strange

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<sup>478</sup> For a more detailed explanation about structural power concept and Susan Strange's vision of international political economy, see Chapter. 3.1.



used famously.<sup>479</sup> Nonetheless, as she commented on this issue, the energy relations did not become less political; the energy politics became transnational only.<sup>480</sup> In other words, despite increasing number and variety of non-state actors in the triangular diplomacy, the very nature of the game is still political to a great extent. How did this new game and the new standards about the energy structure created a new threshold of legitimacy and acceptability by spreading in the global finance and knowledge structures?

In order to explain this better, the international regime theory offers useful insights on the role of international organisations and the learning mechanisms of countries from these, in addition to the concept of structural power and Strange's explanations about the knowledge structure. The regime theory approach handles policy diffusion from a more pragmatic position, differently from the critical, anti-neoliberal perspectives which were mentioned previously (see Chapter 2.3). Therefore, the concept of structural power and international regime theory will be exploited in a complementary way to each other at this part.

According to the widely accepted definition of Krasner, international regimes are sets of principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue area.<sup>481</sup> The international regime theory is a branch within the theories of international relations, seeking to explain the emergence of co-operation among state actors by focusing on the role that regimes play in overcoming various collective action problems.<sup>482</sup> The

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<sup>479</sup> Susan Strange, "States, firms and diplomacy", *International Affairs*, Vol. 68, No. 1 (1992), pp. 1-15.

<sup>480</sup> Strange, *States and Markets*, pg. 194.

<sup>481</sup> Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", *International Organization*, Vol. 36, No. 2 (1982), pg. 203.

<sup>482</sup> Anu Bradford, "Regime Theory", *Max Planck Encyclopedia of Public International Law*, Oxford Public International Law, 2007.

regime theory is often referred as neoliberal institutionalism due to the shared premises about regimes' central role in facilitating international co-operation and limiting the state behaviours.

Some tasks performed by the international organisations are prevention of market failures, reduction of uncertainty, minimisation of transaction costs, and information sharing.<sup>483</sup> Therefore, the main claim of the regime theory is that regimes are formed to accomplish interstate co-operation and information sharing in order to decrease transaction costs and to tackle common problems, as Gilpin writes.<sup>484</sup> There is a consensus in literature that regimes create convergence of expectations, and constitute some behavioural standards. At this point, it is important to note that using structural power concept of Strange together with Krasner's international regime theory, which is explicitly liberal, is not necessarily classifying Susan Strange's ideas as liberal. Where the international regime theory and Strange's structural power concept contradict is that the former has traditionally taken the states as the main actors in international relations, whereas the latter emphasises the "triangular diplomacy" in which non-state actors, particularly transnational corporations, have importance.

In the international regime theory, in accordance with the liberal theory, states are regarded as rational, unitary actors seeking for maximisation of national self-interest. However, these state interests, as the liberal theory argues, are not always conflictual or zero-sum. Therefore, state actors prioritise their absolute gains, rather than relative gains of the other actors. The regime theory assumes that state actions are affected by norms, but their normative behaviours are not

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<sup>483</sup> Robert Gilpin, *Global Political Economy: Understanding the International Economic Order*, Princeton, Princeton University Press, 2001, pg. 83.

<sup>484</sup> Ibid., pg. 87.

necessarily contradictory with the pursuit of national interest.<sup>485</sup> The national interests can be altered by the knowledge and ideology provided by or within the international regimes.<sup>486</sup>

The international regimes are claimed to affect the state behaviour in two ways. One, emphasised in functionalist and game-theoretic approaches, is that regimes have altered the situation or setting in which states interact; the second, highlighted by cognitivists, is that they can alter actors' interests or preferences.<sup>487</sup> Thus, the former perceives the international regimes as an arena for interactions, while the latter perceiving more like a learning platform. In this sense, what international regime theory suggests about altering states' preferences through diffusion of ideas, norms, and beliefs, become almost a subset of Strange's conception of structural power, but particularly of the knowledge structure (see Chapter 3.1). To reiterate shortly, they sometimes change material payoffs for countries by influencing the range of choices open to state actors, and sometimes by influencing non-material payoffs, such as like reputational payoffs. At this point, the literature about the energy structure can also be referred again (see Chapter 3.2).

When it comes to the field of energy, one of the earliest applications of international regime theory to energy was Keohane's famous book, *After Hegemony*.<sup>488</sup> Yet, it more dealt with the oil regime, and the International Energy Agency. In terms of the global energy structure, as a secondary structure, it can be said that international regimes served much to convergence of expectations

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<sup>485</sup> Stephan Haggard, Beth A. Simmons, "Theories of international regimes", *International Organization*, Vol. 41, No. 3 (1987), pg. 492.

<sup>486</sup> *Ibid.*, pg. 510.

<sup>487</sup> *Ibid.*, pp. 513-514.

<sup>488</sup> Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton, Princeton University Press, 1984.

and delineation the framework of acceptable policies which, mostly are derived from the organising principle.

### ***Effects of International Organisations***

The first factor, effects of the international organisations, made encouraging and supportive effects on Turkey for liberalisation. Turkey has a long history of policy learning from the international organisations. The above-mentioned example of learning from the IMF and the World Bank during mid-1980s is not the only sample. It also proves that policy learning is not realised only through organisations dealing with energy alone, but also through other organisations be its scope finance, environment, trade etc. In this way, Turkey was structurally directed towards electricity liberalisation by a number of international organisations dealing with various issues such as the IMF, World Bank, IEA, and the EU. Yet, in spite of the fact that their individual stances combined create a structure-like framework for how things shall be done in the electricity sector, their effects in this category did not go beyond encouraging the country for reform by decreasing the transaction costs, as the regime theory argues. However, as cognitivist approach claimed, this process created a bureaucratic circle believing the benefits of electricity liberalisation as many interviewees confirmed above. This also supports what the concept of structural power suggests about knowledge structure. Thanks to intensified and directed interactions between Turkish officials and representatives of the established foundations of the knowledge structure, what information was communicated with whom and to what end could easily be adjusted during purposive meetings which targeted to diffuse neoliberal ideas about restructuring the electricity sector. In this way which Hall regards “policymaking as social learning”, countries learn specificities of a policy prescription in a narrow issue area.<sup>489</sup>

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<sup>489</sup> Peter A. Hall, “Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain”, *Comparative Politics*, Vol. 25, No 3 (1993), pg. 275.

The energy related international organisations provided information about a wide range of topics for their members. This is a part of what has been called as the demonstration effect previously. The demonstration effect, together with the global discursive superiority of neoliberal prescriptions mentioned earlier (see Chapter 2.2), played a pivotal role in persuading countries for electricity liberalisation. Demonstrating the benefits of electricity liberalisation to the relevant countries serves to persuading them. The more powerful and impressive the demonstration effect, the quicker and stronger liberalisation initiates with a higher degree of acceptability at the internal realm. Once the persuasion is matured, then experience sharing about practical aspects of the advancement of the process gains more significance.

In order to disseminate the information they accumulated, the international organisations make publications in which they bring the experiences of member countries together.<sup>490</sup> These publications are means of teaching main pillars of the knowledge structure in an issue area to a targeted actor or group of actors. Country-specific publications are also prepared by these institutions to advise countries. For example, before and during the liberalisation period, numerous publications were published focusing solely on the Turkish electricity sector.<sup>491</sup> For Turkey, this information sharing consisted of possible economic benefits of liberalisation at the early stages; later, it started to include experiences of the other countries which liberalised their electricity markets. However, the

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<sup>490</sup> For some examples: IEA, *Electricity Market Reform: An IEA Handbook*, OECD Publishing, Paris, 2000; OECD and IEA, *Lessons from Liberalised Electricity Markets*, OECD Publishing, Paris, 2005; IEA, *Regulatory Institutions in Liberalised Electricity Markets*, IEA, Paris, 2001; IEA, *Distributed Generation in Liberalised Electricity Markets*, IEA, Paris, 2002; World Bank, *Taking Stock of the Political Economy of Power Sector Reforms in Developing Countries*, Policy Research Working Paper 8518, 2018.

<sup>491</sup> For some examples, see: *Turkey's Energy Transition: Milestones and Challenges*, World Bank, Washington DC, 2015; *Energy Policies of IEA Countries: Turkey 2009 Review*, IEA, 2010; *Energy Policies of IEA Countries: Turkey 2016 Review*, IEA, 2016; *Creating Markets in Turkey's Power Sector*, Note 33, World Bank, 2017; *IEA encourages Turkey to deepen energy market reforms*, IEA, September 20, 2016, <https://www.iea.org/newsroom/news/2016/september/iea-encourages-turkey-to-deepen-energy-market-reforms.html>.

persuasion process did not advance smoothly always, as above-mentioned interviewees responded.

Alongside making publications and establishing forums where countries collaboratively try producing common solutions to common problems by exchanging good practices, the international organisations usually have specialised programmes to help their member or partner countries in meeting their needs by offering both tailor-cut and standard prescriptions. The Energy Sector Management Assistance Program, the World Bank's Energy and Extractives Global Practice Program, the IMF's Energy Subsidy Reform Course (there are also country-specific programmes), and the UN's UN-Energy are some global examples.<sup>492</sup> Within the framework of these programmes and initiatives, countries are selected, shared with the related knowledge and experiences, and are facilitated to adapt better to the knowledge structure in the issue area. With the help of information sharing mechanisms provided by these publications, programmes and forums, Turkey could reduce the transaction cost of restructuring, benefit from experiences of the early reformers among the like-minded countries, and incorporated in the global neoliberal transformation.

### ***Turkey's EU Membership Process***

The second external political factor, Turkey's EU membership process, made a more significant effect on the Turkish electricity liberalisation. Turkey's relationships with the EU not only directed the country to liberalisation through accession negotiations, but also kept it on the track, thanks to the possible lucrative returns of a progressing EU membership process. In spite of oversimplification in the wording, the membership process points out to the general state of affairs between Turkey and its Western allies. Therefore,

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<sup>492</sup> The mentioned initiatives can be reached at these links, respectively: <http://www.esmap.org/>; <https://www.worldbank.org/en/topic/energy>; <https://www.imf.org/en/Capacity-Development/Training/ICDTC/Courses/ESRx>; <https://www.un-energy.org/>.

Turkey's political relations with its Western allies can be examined by encapsulating it within the reflections of Turkey-EU relations to a considerable extent. The underlying reason for this is the EU's role in Turkey's foreign relations, not only as a showcase indicator, but also as a concrete anchor for Turkey's place in the Western world.

Turkey's insist on Europeanisation is far from being a new phenomenon, and, indeed, has a century-long story behind. Turkey's eager for being recognised as a European country is as old as the Congress of Vienna. Before the republic, the Ottoman Empire too had sought for the opportunities for aligning with Europe, as a way of catching up with the world. In the post-war period, the relations between Turkey and the European Economic Community dates back to 1959. At last, Turkey obtained candidacy status in December 1999, at Helsinki Summit, and the accession negotiations started six years later, in October 2005. The consecutive Turkish governments endeavoured to meet the requirements of the EU accession process, and in the course of the relations, energy has gained a role as pivotal as security.<sup>493</sup> Thus, energy became one of the few issues which were covered within the framework of the "positive agenda", as a substitute to the regular negotiations on the energy chapter which stalled due to veto of the Greek Cypriot Administration.<sup>494</sup>

From the beginning, Turkey's full membership agenda has required a satisfactory alignment with the EU's *acquis communautaire* in various fields, including electricity.<sup>495</sup> In this regard, it is safe to claim that electricity liberalisation in Turkey has been an element of the foreign economic and

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<sup>493</sup> Halit Tarık Oğuzlu, "Turkey and the European Union: Europeanization without Membership", *Turkish Studies*, Vol. 13, No. 2 (2012), pg. 230.

<sup>494</sup> Fasil 15 – Enerji, Ministry of Foreign Affairs, <https://www.ab.gov.tr/80.html>.

<sup>495</sup> Erdoğan, "Regulatory reform in Turkish energy industry: An analysis", pg. 986; Atiyas, *Reforming Turkish Energy Markets*, pg. 3; Özkıvrak, "Electricity restructuring in Turkey", pg. 1340.

political agenda even.<sup>496</sup> For this reason, in order to scrutinise the EU dimension in the introduction of Turkey's electricity liberalisation, it is helpful to analyse the EU's energy policy, and annual Turkey progress reports prepared by the European Commission.<sup>497</sup> The Union's electricity liberalisation efforts became concrete with the first electricity directive (Directive 96/92/EC) concerning internal electricity market.<sup>498</sup> Later, within the framework of the second energy package, a new directive (Directive 2003/54/EC) was adopted in 2003.<sup>499</sup> However, it was repealed by the current directive (Directive 2009/72/EC) in 2009.<sup>500</sup> Not only Turkey, but also electricity liberalisations in the EU member countries have been affected by these directives as well.

Liberalisation of the electricity sector was of a top priority demand beginning from the very first Turkey progress report in 1998, and also covered restrictions on the foreign ownership in the sector.<sup>501</sup> In the 2001 progress report, it is stated that Turkey advanced in the fields of competitiveness and internal energy market, with the adoption of the first EPK (Law No 4628).<sup>502</sup> The 2002 report founded the opening of electricity market for industrial users (9 GWh minimum annual consumption) noteworthy, in September 2002.<sup>503</sup> The 2005 report expressed that although laws and regulations in Turkey are largely

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<sup>496</sup> For a similar argument regarding energy, see: Ahmet K. Han, "Turkey's Energy Strategy and the Middle East: Between a Rock and a Hard Place", *Turkish Studies*, Vol. 12, No. 4 (2011), pp. 606-608.

<sup>497</sup> For a more detailed analysis, see: Serhan Ünal, *Europeanisation of the Turkish Energy Sector: A Case Study on the Electricity Market*, Master's Thesis, Middle East Technical University, Ankara, 2013.

<sup>498</sup> Directive 96/92/EC, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31996L0092&from=EN>.

<sup>499</sup> Directive 2003/54/EC, [https://eur-lex.europa.eu/resource.html?uri=cellar:caeb5f68-61fd-4ea8-b3b5-00e692b1013c.0004.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:caeb5f68-61fd-4ea8-b3b5-00e692b1013c.0004.02/DOC_1&format=PDF).

<sup>500</sup> Directive 2009/72/EC, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0072&from=en>.

<sup>501</sup> European Commission, *Turkey Progress Report*, 1998, pg. 43.

<sup>502</sup> European Commission, *Turkey Progress Report*, 2001, pg. 70.

<sup>503</sup> European Commission, *Turkey Progress Report*, 2002, pp. 95-96.



in line with the *acquis*, implementation performance needed to be improved.<sup>504</sup> The 2007 report was highly critical towards Turkey; which highlighted that the liberalisation process stalled, and the electricity distribution privatisations were postponed.<sup>505</sup> This critique was a fair one. In 2007, there was a general election in Turkey, and the government did avoid deliberately from the steps which could have decrease the electoral support (see Chapter 4.3.2).

However, following the election year, the 2008 and 2010 reports praised the government again for advancements such as cost-based pricing scheme, completion of some of the distribution privatisations, realisation of some private generation investments, and launching the balancing and settlement market.<sup>506</sup> The 2012 report, for the first time, defined Turkey's status "moderately advanced stage of alignment", after the initiation of day-ahead market operations in December 2011, despite slowing privatisations.<sup>507</sup> The 2013 report founded positive the adoption of the new EPK (Law No 6446) for creating a more competitive environment, further alignment with the *acquis*, and for the completion of distribution privatisations.<sup>508</sup> As of 2015, the report criticised Turkey especially for applying cost-based price mechanism only in principle; on the other hand, positively recorded the continuing generation privatisations, and establishment of EİİAŞ. It defined Turkey's Europeanisation status as "well advanced" as a sign of certain level of achieved maturity.<sup>509</sup>

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<sup>504</sup> European Commission, *Turkey Progress Report*, 2005, pg. 89.

<sup>505</sup> European Commission, *Turkey Progress Report*, 2007, pp. 28-29.

<sup>506</sup> European Commission, *Turkey Progress Report*, 2008, pp. 56-57; European Commission, *Turkey Progress Report*, 2010, pg. 64.

<sup>507</sup> European Commission, *Turkey Progress Report*, 2012, pp. 61-62.

<sup>508</sup> European Commission, *Turkey Progress Report*, 2013, pg. 36.

<sup>509</sup> European Commission, *Turkey Progress Report*, 2015, pp. 47-48.

If Turkey's EU accession negotiations are evaluated from a structural power standpoint, it is seen that the negotiations worked as almost a part of knowledge structure urging Turkey to adapt to the third organising principle of the electricity sector and to its accepted standards and norms in the global energy structure. What made these negotiations a part of knowledge structure is their political attribute as an element of global discursive superiority of neoliberalism, and their function as a learning platform for Turkish officials. The accession process, in its essence, is almost a 'norm projection capability' for the EU.<sup>510</sup> Within the framework of negotiations, the EU authorities negotiate with the national authorities of the candidate countries on 33 chapters covering various issue-areas ranging from financial services, to energy, agriculture, and human rights. The EU officials, during this process, inspect the national regulations in terms of their compatibility with the EU regulations which reflect neoliberal values and prescriptions. Thus, accession negotiations work as a learning platform or persuasion forum where certain beliefs and norms are spread, alongside the other international organisations. The interviewees confirmed this point. One of them even said that, for bureaucrats, the easiest way of advancing electricity liberalisation is filling the gaps between the EU directives and Turkey's national jurisdiction.<sup>511</sup>

Differently from the other international organisations, the EU played a major role in making the liberalisation process sustainable, by facilitating consecutive Turkish governments to make the necessary political commitment. Specifically, the question is what did urge different Turkish governments to the same 'Europeanisation through liberalisation' path in the electricity sector? More broadly, why did different governments insist on the EU membership? The positive correlation between Turkey's Europeanisation and its possible lucrative returns was the answer. The insistence on Europeanisation has long

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<sup>510</sup> The term 'norm projection capability' was adapted from the term 'power projection capability', by considering that the EU prefers to perceive itself and to be perceived by the others as a normative power prioritising its values, regardless of the validity of this claim.

<sup>511</sup> Kenan Sitti, Ankara, October 2019, interview.

presented possible lucrative returns for the rulers of Turkey. Even though the possible returns mostly intensified in the field of military security during the 19<sup>th</sup> and early 20<sup>th</sup> century, they increasingly spread to the fields of politics and economy later. In this vein, energy constituted a crossroads at the intersection of all three, security, politics, and economy. Regarding the security pillar, which means energy security here, Turkey's geopolitical location has always been a valuable asset for secure transportation of energy resources in the Middle East, eastern Mediterranean, and the Caspian basin.

In domestic politics, possible returns included more electoral support and a source of legitimacy for policy preferences. An advancing EU membership process was a valuable asset for the ruling parties to attract more votes in the elections.<sup>512</sup> Approval ratings for the EU membership pointed out to the convertibility of advancement in the accession negotiations into electoral support in domestic politics (see Figure 5.4). Disapproval of the EU membership never exceeded 36%, at its highest level, and between 2004 and 2020, almost three quarters of the Turkish society on average maintained its approval for the EU membership. As 'rational' political actors, most of the politicians claimed their stake in this large group of voters; only some less favourable political parties at the extremes targeted the opposing groups. Therefore, governments maintained their every effort to further the negotiations in order to exploit the accelerating membership negotiations at domestic politics, and electricity liberalisation was a requirement of the accession process.

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<sup>512</sup> Oğuzlu, op. cit., pp. 231-233.

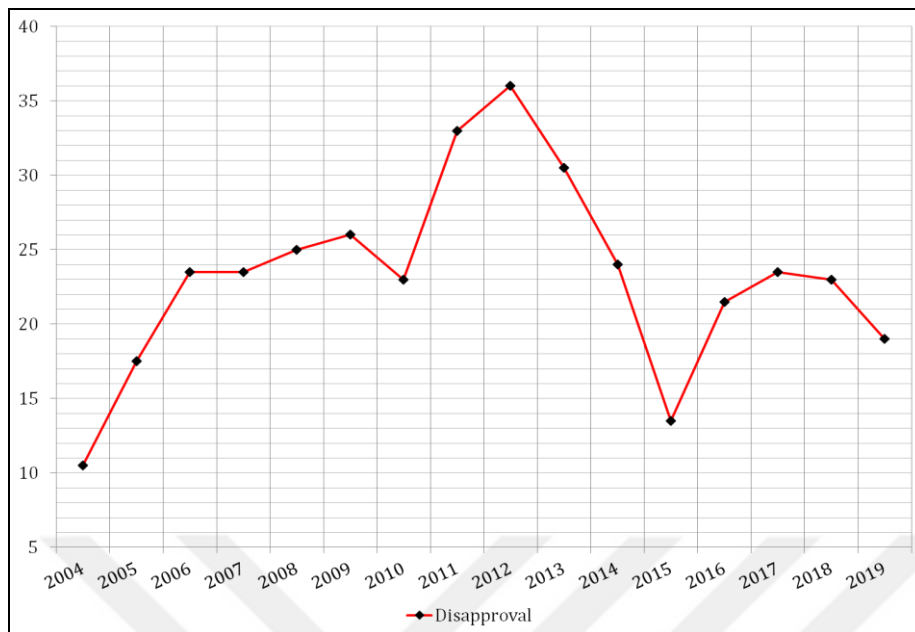


Figure 5.4 EU Membership Disapproval Ratings in Turkey, as %, 2004-19<sup>513</sup>  
(Source: Eurobarometer)

In the foreign policy, the possible returns included exploitation of the candidate country status for a more prestigious image in the world affairs.<sup>514</sup> The effects of political prestige did not only remain within the boundaries of politics, but also spilled over the economy even, by reducing political risks. The political risk, in its simplest form, is “the danger that the actions of governments might reduce the cash-flows that investors expect from their investments”.<sup>515</sup> The EU candidacy status, or an advancing EU membership process, meant a political anchor in the eyes of global investors against unpredictable political risks.<sup>516</sup> In this vein, the EU candidacy paved the way for more FDI inflows, and Turkey

<sup>513</sup> The data was collected from the Eurobarometer studies: <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm>.

<sup>514</sup> Sevilay Kahraman, “Turkey and the European Union: in the Middle East: Reconciling or Competing with Each Other?”, *Turkish Studies*, Vol. 12, No. 4 (2011), pp. 711-712;

<sup>515</sup> “What is political risk?”, *The Economist*, June 8, 2017, <https://www.economist.com/the-economist-explains/2017/06/08/what-is-political-risk>.

<sup>516</sup> Öniş, “Domestic Politics versus Global Dynamics”, pg. 17.

managed to attract a greater portion of world total FDI flows after 2005, with the start of accession negotiations (see Figure 5.2). The EU accession process, increased FDI inflows to Turkey's energy sectors, clearly.<sup>517</sup> This is also where international finance and knowledge structures converge; the better the outlook of Turkey-EU relations, the greater the portion of global FDI flows to Turkey. The mechanism behind this causal relation is similar to what behavioural economists call 'herd behaviour'. Shortly, when the relationships between Turkey and the EU are warm, it is easier for Ankara both to attract foreign investment and to find capital from abroad. This is because international investors and banks desire to remain with the herd which prioritise financing credible borrowers which behave in a compatible way with the global power structures, and maintaining good relationships with the EU is accepted such behaviour for Turkey.

From a symbiotic perspective, it should also be noted that, the Turkey-EU relations has not been commensalism, but mutualism. In other words, not only Turkey benefited from the Union, but the Union benefited from Turkey as well. In a nutshell, there were two underlying reasons. Firstly, Turkey exhibited extensive opportunities to Europe in terms of energygeopolitics, and the EU tended to exploit those opportunities as much and quick as possible. Secondly, Turkey aimed to translate its position in energygeopolitics into the political realm with intention to exploit it as a bargaining chip in the accession negotiations, as a contribution to the country's foreign policy.<sup>518</sup> Thus, both the EU's

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<sup>517</sup> Miguel Eduardo Sánchez-Martín, Gonzalo Escribano Francés and Rafael de Arce Borda, "Will Energy Save FDI Inflows to Turkey from the Cool Down of EU Accession Prospects? A Case Study of How Geo-political Alliances and Regional Networks Matter", *Turkish Studies*, Vol. 16, No.4 (2015), pp. 609-610.

<sup>518</sup> Sohbət Karbuz and Barış Sanlı, "On Formulating a New Energy Strategy for Turkey", *Insight Turkey*, Vol. 12, No.3 (2010), pg. 102; Taner Yıldız, "Turkey Energy Economy and Future Energy Vision", *Turkish Policy Quarterly*, Vol. 9, No. 2 (2010), pg. 16; Ahmet K. Han, "Turkey's Energy Strategy and the Middle East: Between a Rock and a Hard Place", *Turkish Studies*, Vol. 12, No. 4 (2011), pp. 612-614; Bezen Balamir Coşkun and Richard Carlson, "New Energy Geopolitics: Why does Turkey Matter?", *Insight Turkey*, Vol. 12, No. 3 (2010), pp. 214-217.

encouragements towards Turkey for electricity liberalisation and Turkey's eager for EU membership went hand in hand.

Briefly, external political factors made a supportive effect on the Turkish electricity liberalisation. As Strange's knowledge structure suggests, the widely accepted neoliberal prescriptions were transferred to Turkey through multilateral interactions with the like-minded countries. The international organisations encouraged and, as the regime theory explains, supported Turkey by decreasing the transaction costs. The EU, on the other hand, made more than the other international organisations not only by sharing the good practices of its member countries, but also by keeping Turkey on the track. Also, the global discursive superiority of neoliberalism and electricity liberalisation in the global knowledge structure helped the Turkish governments to maintain the legitimacy of the reform programme at the domestic politics. Therefore, external political factors made a supportive impact on the Turkish electricity liberalisation during the introduction phase (see Table 5.3).

Table 5.3 External Political Factors during the Introduction Phase

| Main Factor                 | Impact     |
|-----------------------------|------------|
| International Organisations | Supportive |
| EU Membership Process       | Supportive |

## 5.2: Internal Realm

Choosing liberalisation in an economic sector is ultimately a political decision made by the national governments, like maintaining public ownership. In other words, markets have an inferior role vis-à-vis the political authority. Susan Strange explains this as: "It is very easily forgotten that markets exist under the authority and by permission of the state, and are conducted on whatever terms

the state may choose to dictate, or allow”.<sup>519</sup> Therefore, although the electricity liberalisation is a foreign-inspired policy in its essence, an examination on the issue must include the internal factors as well. The internal realm, especially in the developing countries like Turkey, is more complex than the developed countries, since the domestic conditions of the developing countries are more prone to be affected by the changes in and circumstances of the global power structures.

As mentioned before, external factors (global power structures) constitute independent variable of the research, while internal factors constituting intervening variable which make a diverting effect on the end result, dependent variable (electricity liberalisation). That is to say, intervening variable is as much significant as the independent variable in terms of explaining the causal mechanism. In Turkey’s case, while the external economic and political factors (independent variable) were necessitating the initiation of reform, internal factors (intervening variable) of early 2000s positively contributed to this by creating a window of opportunity. Thus, a perfect match between internal and external realms and between independent and intervening variables facilitated the rapid introduction of electricity liberalisation. In the previous part about external realm, the effects of global power structures on Turkey’s domestic energy policy preferences (electricity liberalisation) have been analysed through the concept of structural power. Here in this part, internal economic and political factors will be analysed through other concepts such as the public choice theory which will be incorporated to the eclectic approach of Susan Strange. Later, public choice theory analysis of the intervening variable will be integrated with the structural analysis of the independent variable.

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<sup>519</sup> Susan Strange, *Casino Capitalism*, Manchester, Manchester University Press, 2015, pg. 25.

### 5.2.1: Internal Economic Factors

The first and the most pressing factor urging the Turkish governments towards attracting more private investment to the Turkish electricity sector via liberalisation was the perceived inability of the state to meet the future investment necessities. This perception had two main ingredients: A frightening demand growth, and weakness of the state's financial arm. In other words, it was practical concerns at the domestic economy, rather than an ideological, normative standpoint which pushed Turkey towards liberalisation in the electricity sector. Nevertheless, it is necessary to reemphasise that practical concerns at the domestic level converged with the pressures created by the global power structures in a timely manner; thus, the country's adaptation efforts became a more systemic and persistent one.

At this point, before commencing, it is important to note that, there are some studies in literature regarding the main motivation of electricity liberalisation in Turkey as the "insufficiency of public funds".<sup>520</sup> This seems an improper argument since everywhere in the world, the public funds are always insufficient for everything; there is a perpetual need for more public funds. Besides, insufficiency is not an absolute measure, but a relative one; amount of something is in/sufficient only compared to the needs. For example, if the electricity demand had not grown that rapidly in the past, the public financial resources could have been sufficient. Therefore, the root cause is the absolute speed of electricity demand growth, not the relative deficiency in public funds. On the other hand, defining the problem as "increasing the supply to the demand level" seems appropriate.<sup>521</sup> It is also helpful to define the issue as the incompatibility between the high growth in electricity demand and low growth in electricity generation. In this vein, lack of financial resources available to

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<sup>520</sup> Özkivrak, op. cit., pg. 1339.

<sup>521</sup> Çetin and Oğuz, "The politics of regulation in the Turkish electricity market", pg. 1761.



governments seems only a reflection of the problem, rather than being the core of it.<sup>522</sup>

### ***Inability of Public Sector***

In fact, the state's inability in meeting the investment needs had always created problems; but, before 1980s, neither economic nor political climate was suitable for liberalisation, put aside technical and ideational impossibilities. However, parallel to the global neoliberal turn and evolution of the organising principle of the electricity industry into another one, new factors blossomed at home and abroad, and the Turkish governments took advantage of them to overcome the chronic problems of the Turkish electricity sector. At the core of the problem was the skyrocketing electricity demand. It was the rapid demand growth which forced the governments to allocate a larger portion of state budget to the sector; and when they had hardships in that, an incompatibility emerged between the needs and resources. The main reason for this high growth in demand was relatively late electrification of the country. The twin problems of many developing countries, namely the combination of population growth and increasing per capita electricity consumption, were directly created in Turkey by late electrification and economic underdevelopment in the country, where an intense urbanisation and industrialisation accompanied to these two.<sup>523</sup>

As it was shown previously, since the foundation of the Republic of Turkey in 1923, the average annual growth in gross electricity demand has been almost 11% continuously during 77 years, until 2000 (see Chapter 4.2). Yet, it is also necessary to reemphasise that a decrease in the growth rate of demand is apparent when the annual growth rates are evaluated from a historical

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<sup>522</sup> For some examples: Erdoğan, "Regulatory Reform in Turkish energy industry: An analysis", pg. 986; İzak Atıyas, *Elektrik Sektöründe Serbestleşme ve Düzenleyici Reform*, İstanbul, TESEV Yayınları, 2006, pg. 25.

<sup>523</sup> "Regulatory Reform in Electricity, Gas and Road Freight Transport", *OECD Reviews of Regulatory Reform*, Paris, OECD, 2002, pg. 8.

perspective (see Figure 4.16). On the other hand, due to hardships in satisfying enormous investment needs of the electricity sector with public resources, the average annual growth rate of electricity generation in the same period has been slightly below the growth rate of gross demand with 10.86%. Although this marked the early signs of an emerging problem of climbing electricity import level which had increased gradually throughout the years, it was more a fundamental indicator of strong demand growth and the state's inability in meeting investment necessity (see Figure 4.17).

The demand growth in electricity was so strong that it did not decrease even when the economy shrank. For example, between 1991 and 2001, the GDP of Turkey declined for three times in ten years; 4,66% in 1994, 3,38% in 1999, and 5,96% in 2001.<sup>524</sup> In spite of this decade of crises, electricity demand decreased only for once in 2001, as shown below (see Figure 5.5). Even devastating earthquakes such as the one in 1999, and major economic recessions could curb the demand growth in the country only a little. The average economic growth rate of the 'decade of crises' was 3,13%, whereas the average growth rate of electricity demand was 6,98%, more than two times higher than the economic growth. Thus, the late 90s and early 2000s witnessed serious supply restrictions and saving measures due to lack of insufficient public electricity investments.<sup>525</sup>

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<sup>524</sup> Data was compiled from the World Bank database.

<sup>525</sup> Özkivrak, "Electricity restructuring in Turkey", pg. 1340.

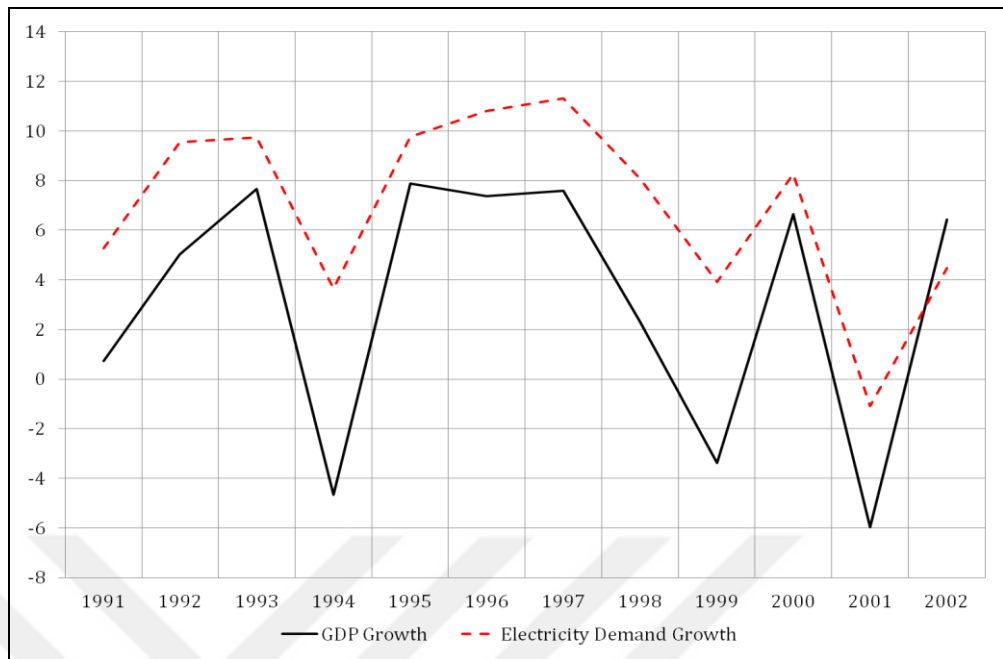


Figure 5.5 Interaction between GDP and Electricity Demand in Turkey, as %, 1991-2002 (Source: *WB, TEİAŞ*)

Having seen this picture, the belief about state's inability to meet the needs of the electricity sector was accepted by the Turkish politicians at last. Bureaucrats had already been persuaded for electricity restructuring as early as mid-1990s, long before politicians, as mentioned before. One of the high rank energy bureaucrats, by confirming this evaluation, said that electricity liberalisation was the "last resort before death" for the Turkish politicians.<sup>526</sup> In other words, they had to accept liberalisation, they had no other choice. Yet, another former high-rank energy bureaucrat defended the opposite, and said that the Turkish energy bureaucracy never supported liberalisation wholeheartedly.<sup>527</sup> The bureaucratic struggle will be evaluated later in the respective part of this chapter.

<sup>526</sup> Anonymous energy bureaucrat, Ankara, 2019, interview.

<sup>527</sup> Anonymous former high-rank energy bureaucrat, Ankara, 2020, interview.

In the late 1990s, not only the current situation, but also the future projections about the sector were pessimistic. For example, a report prepared by the State Planning Organisation for the eighth five year development plan just before the liberalisation was initiated, showed different aspects of this perceived inability clearly. According to the report, total electricity demand would increase more than 100% in 10 years, and approximately \$30 billion investment would be necessary in the first five years, between 2001 and 2005.<sup>528</sup> The required investment amount was predicted around \$130 billion, \$87 billion for generation, \$35 billion for transmission, and \$4 billion for distribution segments; and \$34 billion of the total spending was necessary in the next five years.<sup>529</sup> Since Turkey had not enough credit creating capacity to meet this investment necessity, the questions were which part of the global finance structure would lend this huge amount of money to Turkey and on what terms? In addition to the large volume of these investment figures, there was a risk about realisation, as for any other development plan. The previous two development plans did not have a credible outlook in terms of realisation ratios. Although \$12 billion investment for the sixth five year plan (1990-1995), and \$18 billion investment for the seventh five year plan (1996-2001) was planned, only \$8 billion, and \$11 billion could be realised respectively. This corresponded to approximately 60-65% realisation.<sup>530</sup>

The second main reason underlying the perceived inability of the public sector was financial weakness of the state. The budgetary performance and frequent economic crises were two main problems urging governments to seek for a relief through expected privatisation revenues. The state budget was far from undertaking the necessary investments in the sector, or being promising in

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<sup>528</sup> State Planning Organisation, *Elektrik Özel İhtisas Raporu*, Ankara, 2001, pp.11-1 – 13-3.

<sup>529</sup> Ibid., pp. 13-1 – 13-10 .

<sup>530</sup> Mina Toksöz, "Turkey's energy market – issues in reform", *Journal of Southern Europe and the Balkans*, Vol. 4, No. 1 (2002), pg. 50.

terms of the future.<sup>531</sup> In other words, there was a “strong public finance reason”.<sup>532</sup> All interviewees confirmed this argument; none of them rejected this view. The portion allocated to energy investments became an unbearably heavy burden on the budget; for example, in 1984, the 12,66% of the general budget was allocated just for energy investments.<sup>533</sup> The share of energy investments in the budget decreased throughout the years, as parallel to the slackening demand growth; yet, despite significant fluctuations in some years, the change of the energy budget in the general budget demonstrates the magnitude of this burden explicitly.

The burden of energy investment budget was so heavy for the governments that, it was comparable with the military spending, even during the Cold War years. It was as high as half of the military spending, until 1990s, only after that energy budget started to diverge from the military expenditure. Therefore, all governments targeted getting rid of this heavy burden on the budget, but this could not be possible, until neoliberalism and the electricity liberalisation arrived. From this perspective, Turkish electricity market liberalisation has been a reflection of the global tendency towards electricity liberalisation which has been a reflection of the global neoliberal turn. Thus, from a structural power point of view, it is safe to repeat that the Turkish electricity market liberalisation was just a function of changing organising principle of the electricity industry and of the changes in the global power structures of finance and knowledge.

This becomes more visible when the energy investment budget is compared with the share of public investment budget (see Figure 5.6). The stark decrease

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<sup>531</sup> Erdoğan, “Regulatory reform in Turkish energy industry”, pg. 986.

<sup>532</sup> Atiyas, Çetin and Gülen, *Reforming Turkish Energy Markets*, pg. 21; Özkıvrak, “Electricity restructuring in Turkey”, pg. 1339.

<sup>533</sup> The figures were compiled from the Ministry of Finance (MoF), and Ministry of Development (MoD) databases, and were compared with the data published by the *Resmî Gazete*.

in the share of public investment budget in the total budget (IB/TB) is explicit. It starts around 50% in 1980s, and rapidly decreases to 10% in the mid-1990s, before it starts to fluctuate within a 5% belt, between 10-15%. The share of energy investment budget in the aggregate public investment budget has a similar look (EIB/IB). It was near to one fourth of the total investment budget during 1980s, before it hit to one third in 1989. After this peak, it started to float within a narrow zone until 2004 when it started to decrease meaningfully. As a function of these two, the share of energy investment budget in the general budget decreased even to lower levels (EIB/TB). In 2003 and 2011, it decreased below 2%, and 1% for the first time respectively. When the electricity market liberalisation started in 2001, almost one fourth of the public investment budget was planned for the energy sector, and 3.25% of the general budget was allocated to energy investments,. Nevertheless, a destructive economic crisis in 2001 prevented the realisation of planned investments.<sup>534</sup>

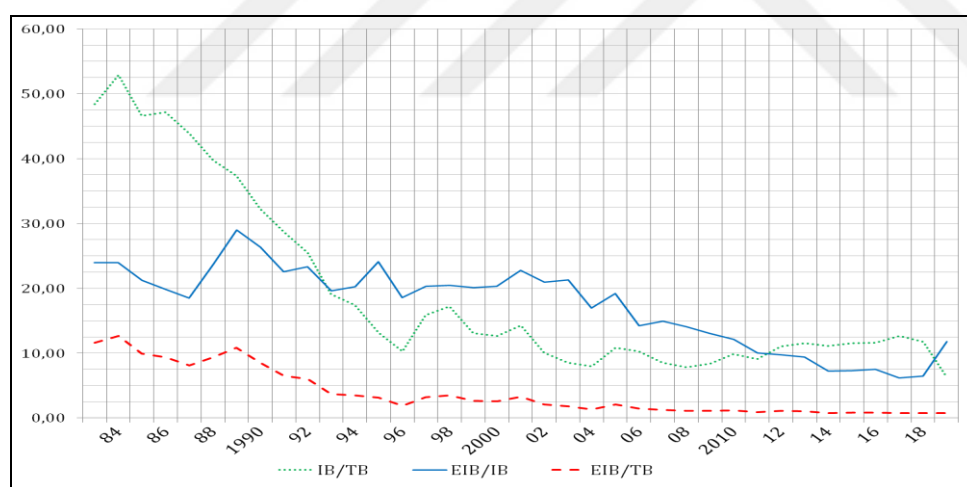


Figure 5.6 Investment and Energy Investment Budget in General Budget, as %, 1983-2019<sup>535</sup> (Source: *MoF, MoD*)

<sup>534</sup> The figures were compiled from the Ministry of Finance (MoF), and Ministry of Development (MoD) databases; and were compared with the data published by the Resmî Gazete.

<sup>535</sup> IB: Public Investment Budget, EIB: Energy Investment Budget, TB: Total Budget. The figures were compiled from the Ministry of Finance (MoF), and Ministry of Development (MoD) databases; and were compared with the data published by the Resmî Gazete.

The situation of electricity supply got worse towards the end of 1990s with blackouts getting longer and more often. The supply was far from meeting the demand not simply due to underinvestment in the electricity sector; the roots of the problem was deeper, the rate of energy investments in the general budget was collapsing much more rapidly than the decrease in the electricity demand growth (see Figure 5.7). While slope of the linear fit of demand growth is -0,2174, slope of the linear fit of EIB/TB ratio is -0,59. This means that the share of energy investments in the general budget was collapsing nearly three times faster than the demand growth. If the electricity generation technologies had become less capital intensive, this could have explained faster collapse in the EIB/TB ratio. Yet, on the contrary, it is explicitly known that the electricity generation technologies have become more capital intensive. Therefore, this faster collapse can partly be explained through short lifespan of the Turkish governments. During 1990s, 11 governments came to power between November 1989 and November 2002, on average only 14 months per government. Unsurprisingly, this circulation of governments urged them to protect their short term political gains, rather than concentrating on long term needs of the country. Since the electricity investments took time to be realised and provided benefits only in a distant future, the governments, as 'rational' political actors, prioritised to maximise their political gains by subsidising especially residential consumers, and inclined to postpone the big electricity generation investments.<sup>536</sup>

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<sup>536</sup> S.Mustafa Durakoğlu, "Political institutions of electricity regulation: The case of Turkey", *Energy Policy*, Vol. 39 (2011), pg. 5581.



Figure 5.7 Demand Growth Rate and EIB/TB Ratios, as %, 1983-2001<sup>537</sup>

(Source: TEİAŞ, MoF, MoD)

At the beginning of 2001, one of the deepest economic crises in Turkey emerged. Although it was more like a reflection of decade-long economic problems of the country, the apparent reason for the crisis was a heated discussion between the President Ahmet Necdet Sezer, Prime Minister Bülent Ecevit, and Deputy Prime Minister Hüsametdin Özkan, during a National Security Council meeting, on February 19, 2001. The 2001 economic crisis was more like a consequence of the previous years, rather than being an outcome of a single event. Indeed, there were economic instabilities and crises all over the world at the same time with Turkey; in 1994 Mexico, in 1997 South Korea, Thailand and Indonesia, in 1998 Russia, in 1999 Brazil, and in 2001 Argentina had similar economic stories. This, in fact, demonstrates another characteristic feature of

<sup>537</sup> EIB: Energy Investment Budget, TB: Total Budget.



the global finance structure; 1990s were a decade of crises in all over the world, not only in Turkey.<sup>538</sup> However, this is out of the scope of this study.

Turkey, following a decade of severe macroeconomic instabilities parallel to the global examples, had already signed a stand-by agreement with the IMF in December 1999. Therefore, when the 2001 crisis hit, Turkey was already implementing a recovery programme backed by the IMF. On the other hand, this could not prevent a banking crisis in the country at the end of 2000 when overnight interest rates reached at 800%.<sup>539</sup> In fact, in 2001, the share of energy investment budget in public investment budget rose in a meaningful way, pointing to the coming electricity supply crisis (see Figure 5.6). Yet, the 2001 crisis, alongside its negative effects, relieved the Turkish electricity sector from a supply crisis in short-term by curbing the demand, and by postponing the shortage to a future date.<sup>540</sup>

After the 2001 economic crisis, Turkey had to accept a much bitter prescription, including a more aggressive attitude towards liberalisation and privatisation. This was the point where domestic economic conditions necessitated aligning with the global finance structure more than ever before. Because the country was in acute need of foreign capital and the stamp of approval could be issued only by the international financial institutions which were guardians of the global finance structure as Strange pointed out, it had to adapt to the course of finance structure in order to get to be financed. After 1980s, better adaptation to global finance structure required liberalisation of some publicly-owned sectors

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<sup>538</sup> For a short summary of the reasons, see: Sharat G. Lin, "The 1990s: Decade of Global Economic and Political Crisis", *Economic and Political Weekly*, Vol. 25, No. 4 (1990), pp. PE47-PE52.

<sup>539</sup> Ahmet Ertuğrul and Faruk Selçuk, "A Brief Account of the Turkish Economy, 1980-2000", *Russian and East European Finance and Trade*, Vol. 37, No. 6 (2001), pg. 30.

<sup>540</sup> Ercüment Camadan and İbrahim Etem Erten, "An evaluation of the transitional Turkish electricity balancing and settlement market: Lessons for the future", *Renewable and Sustainable Energy Reviews*, Vol. 15 (2011), pg. 1333.

most of the time, and countries with lower structural or bargaining power had less flexibility vis-à-vis the framework of finance structure.

The problem for Turkey, as a country with relatively weaker structural and bargaining power, was that the international financial institutions had a sharp conditionality policy to force the countries to adjust their domestic economic structures to the framework of global finance structure, as explained in the section about external economic factors (see Chapter 5.1.1). After a series of corrosive crises during 1990s and the one in 2001, the Turkish governments had no other option but to obey to the rules of these institutions which led the country to the same structural adjustment path. The 'structure' in the structural adjustment meant the global finance structure, while 'adjustment' meaning adapting to the rules of it. Indeed, electricity liberalisation was just a first step and rehearsal of a wider liberalisation programme at the domestic theatre in Turkey, as one of the interviewees said.<sup>541</sup>

As an interesting historical coincidence, the first Electricity Market Law (EPK) was enacted by the Turkish Grand National Assembly on the same day with the historic National Security Council Meeting, on February 19, 2001. While the meeting was continuing, the parliament was discussing about the first EPK. The economic hardships the government faced with peaked parallel to the 2001 crisis which curbed the state's financial capabilities to maintain the current state-led investment practices in the sector even further. From this perspective, the introduction of electricity liberalisation was a timely move indeed. Many interviewees confirmed this idea by emphasising that the 2001 crisis urged Turkey towards liberalisation by decreasing the state's financial capabilities. Because the state needed to ameliorate the effects of the economic crisis, it focused to increase its revenues; privatisation was one of the best options for that.

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<sup>541</sup> Oytun Alici, Ankara, November 2019, interview.

For this reason, the expected revenue of privatisations was seen as a means for two ends; to relieve the financial tightness and to attract capital from abroad. The former evolved into the latter in time, as the acute need for finance decreased. Historically, although the first legal attempts for privatisation were made in 1984, the Privatisation Administration was founded as late as 1994. However, mass privatisations could not be realised until 2001 economic crisis. Therefore, there is a tendency in literature towards dividing the privatisation in Turkey into two as pre- and post-2001; the former characterised by slow and limited, and the latter characterised by mass privatisation.<sup>542</sup> The privatisation volumes verify this argument. Until 2002, Turkey completed a mere \$8 billion privatisation in 16 years, but later managed to privatise \$59,417 billion in the following 14 years until 2016.<sup>543</sup> In this difference, changing external economic conditions and domestic political environment were highly influential as well.

The former motivation, providing governments with more exploitable financial resources, was more significant during the early phase of introduction period. This was made explicit via privatisation method which prioritised the sale of operating rights of the plants to the highest bidder, and was also regarded as a way of covert taxation.<sup>544</sup> The electricity privatisations targeted revenue maximisation, although the first strategy paper in March 2004 expressed the opposite. During the Justice and Development Party (JDP) era, the preferred privatisation method was block sale to consortia in order to increase the revenue obtained, instead of using capital markets in a way to contribute to the betterment of distribution of wealth somehow.<sup>545</sup> The privatisations of distribution companies were implemented using the TSS Model; the investor became the sole owner of the company's shares which was the only licensee to

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<sup>542</sup> Öniş, "Power, Interests, and Coalitions", pg. 708.

<sup>543</sup> 2009 Faaliyet Raporu, Özelleştirme İdaresi Başkanlığı, Ankara, 2010, pg. 7; 2015 Faaliyet Raporu, Özelleştirme İdaresi Başkanlığı, Ankara, 2016, pg. 56.

<sup>544</sup> Atiyas, Çetin and Gülen, *Reforming Turkish Energy Markets*, pg. 6, 39.

<sup>545</sup> Öniş, op. cit., pg. 712.

distribute electricity within a specified region, but the ownership of the physical assets belonged to TEDAŞ.

The privatisations in the sector took off after the first strategy paper in 2004, but intensified only after 2008, with the privatisation of electricity distribution companies which were included in the privatisation programme with the decision of Supreme Council of Privatisation on April 2, 2004, with number 2004/22. Nevertheless, this privatisation endeavour caused the allocation of a portion of the energy investment budget for the rehabilitation of the companies to be privatised (see Figure 5.8). With the completion of privatisation in the distribution segment, the share of energy investment expenditures in the general budget declined to below 1% permanently (see Figure 5.6). Besides, the state obtained \$12,74 billion from privatisation of the electricity distribution companies in total (see Table 5.4). In addition to these, the state would get rid of the burden created by losses of public companies such as TEAŞ, which lost \$656 million in 2000 alone.<sup>546</sup>

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<sup>546</sup> "Regulatory Reform in Electricity, Gas and Road Freight Transport", *OECD Reviews of Regulatory Reform*, Paris, OECD, 2002, pg. 19.

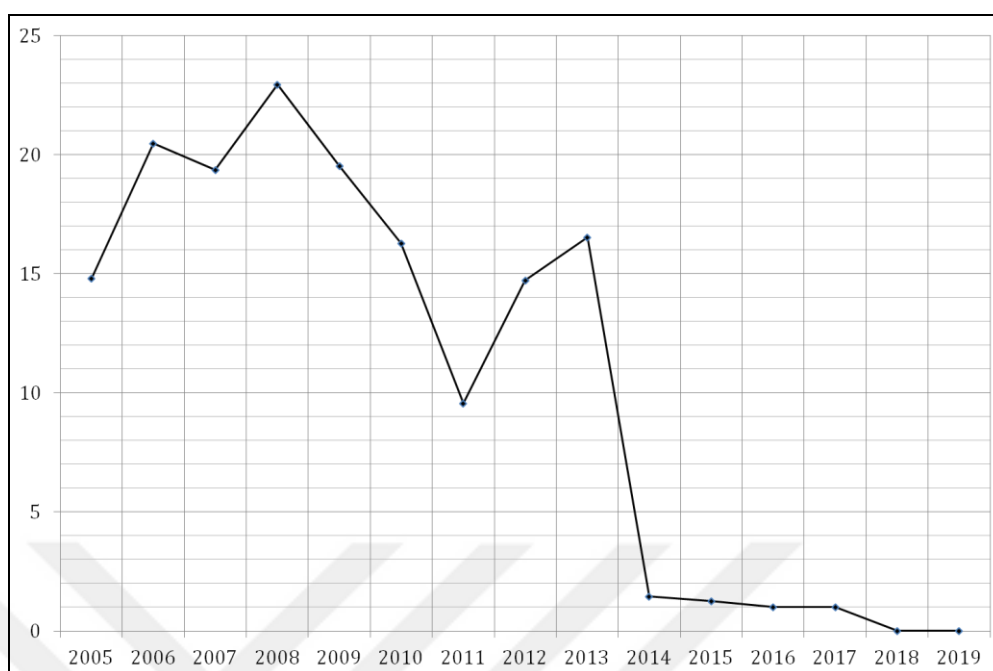


Figure 5.8 Rehabilitation Expenditures in the Energy Investment Budget, as %, 2005-19 (Source: MoF, MoD)

Table 5.4 Privatisation Values of Electricity Distribution Companies (Source: Privatisation Administration)

| Distribution Company | Privatisation Value (million \$) | Tender Year | New Owner                    |
|----------------------|----------------------------------|-------------|------------------------------|
| Başkent              | 1.225                            | 2009        | Sabancı Holding, E.On        |
| Sakarya              | 600                              | 2009        | Akkök Holding, CEZ Group     |
| Meram                | 440                              | 2009        | Alarko, Cengiz Holdings      |
| Osmangazi            | 485                              | 2010        | Yıldızlar SSS Holding        |
| Çoruh                | 227                              | 2010        | Aksa Electricity             |
| Yeşilırmak           | 441,5                            | 2010        | Çalık Holding                |
| Fırat                | 230,25                           | 2010        | Aksa Electricity             |
| Çamlıbel             | 258,5                            | 2010        | Cengiz, Limak, Kolin Holding |
| Uludağ               | 940                              | 2010        | Cengiz, Limak, Kolin Holding |

|                                 |       |      |                               |
|---------------------------------|-------|------|-------------------------------|
| Trakya                          | 575   | 2011 | IC Holding                    |
| Akdeniz                         | 546   | 2013 | Cengiz, Limak, Kolin Holdings |
| Ayedaş                          | 1.227 | 2013 | Sabancı Holding, E.On         |
| Toroslar                        | 1.725 | 2013 | Sabancı Holding, E.On         |
| Dicle                           | 387   | 2013 | Eksim Investment              |
| Gediz                           | 1.231 | 2013 | Bereket Energy Holding        |
| Boğaziçi                        | 1.960 | 2013 | Cengiz, Limak, Kolin Holdings |
| Vangölü                         | 118   | 2013 | Türkerler Holding             |
| Aras                            | 128,5 | 2013 | Çalık, Kiler Holdings         |
| <b>Total Revenue: 12,744.75</b> |       |      |                               |

Table 5.4 (continued)

The first strategy paper made clear that the privatisation in the electricity sector would start from the distribution segment, and be completed until 2007. There were two main reasons for starting from the distribution segment. The first, and the main reason, was more about creating credible contractual counterparts for private generators.<sup>547</sup> Thus, generation companies would find economically sustainable markets for their electricity, and this would increase the generation capacity in the country by securing more private investments, hopefully some foreign investors as well. The second reason was more about domestic political climate created by July 22, 2007 elections. The political uncertainty postponed the process which would have been completed until 2007 according to the strategy paper. The privatisations of distribution companies could only be completed in 2013, and until the arrival of balancing market in 2006, all prices were determined administratively. These hardships in obtaining finance, due to lack of a credible contracting market, caused low levels of new generation investments. If the 2008 global crisis had not affected Turkey, there could have

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<sup>547</sup> Atiyas, op. cit., pg. 29.

been electricity shortage in a way to erode the belief in liberalisation.<sup>548</sup> In this respect, a problem in the global finance structure, 2008 crisis, saved the Turkish electricity sector from a supply crisis by curbing the demand. Interviewees converged with the first reason, they generally defended that the state targeted to create a private contractual partners for the generators first.<sup>549</sup> In 2005, the Article 22 of law numbered 5398, permitted the electricity distribution companies to reintegrate with the generation companies as long as they had accounting separation, which meant an erosion of vertical unbundling defined in the first EPK.<sup>550</sup> This was perceived by the public as an endeavour to increase the privatisation value of the distribution companies. However, it is obvious that some degree of vertical integration between distribution and generation segments can decrease risks about cash flow.<sup>551</sup>

Differently from the privatisations of electricity distribution companies, privatisation in the generation segment continued with slow pace until 2011. In 2008, Tercan, Mercan, Kuzgun, İkizdere, Çıldır, Beyköy, Ataköy hydroelectric plants, Denizli geothermal electricity plant and Engil natural gas plant were transferred to Zorlu energy for \$510 million.<sup>552</sup> Starting from 2010, the process for small-scale hydroelectricity plants commenced and the operating rights of 57 plants (280 MW installed power in total) were transferred for 49 years for \$957 million.<sup>553</sup> The privatisation of 6038 MW generation capacity brought \$9,61 billion between 2008 and 2016 (see Table 5.5).<sup>554</sup>

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<sup>548</sup> Ibid., pg. 41.

<sup>549</sup> All interviewees expressing their views on this issue accepted this idea.

<sup>550</sup> Resmî Gazete, July 21, 2005.

<sup>551</sup> Atiyas, *Elektrik Sektöründe Serbestleşme ve Düzenleyici Reform*, pg. 68.

<sup>552</sup> *2009 Faaliyet Raporu*, Özelleştirme İdaresi Başkanlığı, Ankara, 2010, pg. 62.

<sup>553</sup> *2010 Faaliyet Raporu*, Özelleştirme İdaresi Başkanlığı, Ankara, 2010, pg. 37.

<sup>554</sup> *Elektrik Üretim AŞ'ye Ait Elektrik Üretim Santralleri*, Özelleştirme İdaresi Başkanlığı, [http://www.oib.gov.tr/T%C3%BCrk%C3%A7e/Portfoy/Portfoy\\_Detay/Elektrik\\_%C3%9Cretim\\_A%C5%9F%60ye\\_Ait\\_Elektrik\\_%C3%9Cretim\\_Santralleri/1488900223.html](http://www.oib.gov.tr/T%C3%BCrk%C3%A7e/Portfoy/Portfoy_Detay/Elektrik_%C3%9Cretim_A%C5%9F%60ye_Ait_Elektrik_%C3%9Cretim_Santralleri/1488900223.html).

Table 5.5 Privatised Generation Plants, 2008-16 (Source: *Privatisation Administration*)

| Plant Name                 | Installed Power (MW)  | Transfer Year | Value (million \$) |
|----------------------------|-----------------------|---------------|--------------------|
| 57 Hydroelectricity Plants | 280                   | 2008-2014     | 957                |
| Seyitömer                  | 600                   | 2013          | 2.248              |
| Kangal                     | 457                   | 2013          | 985                |
| Hamitabat                  | 1.156                 | 2013          | 105                |
| Yatağan                    | 630                   | 2014          | 1.091              |
| Kemerköy, Yeniköy          | 1.050                 | 2014          | 2.671              |
| Çatalağzı                  | 300                   | 2014          | 350                |
| Orhaneli, Tunçbilek        | 575                   | 2015          | 521                |
| Soma B                     | 990                   | 2015          | 685,5              |
| <b>Total (6.038 MW)</b>    | <b>\$9,61 billion</b> |               |                    |

### *Role of the Private Sector*

Apart from state's encouragement, the private sector itself was also eager to take advantage of the electricity liberalisation. The energy sector was regarded as one of the most promising investment areas in the economy, and especially the electricity sector was one of the fastest growing markets in the world. Therefore, particularly electricity distribution privatisations, but also some generation privatisations too, turned into rent seeking investments for private sector, despite warnings of some observers about not creating "guaranteed business opportunities" through privatisations.<sup>555</sup> The anticipated high electricity demand growth impressed many private investors, and the guaranteed business opportunity perception dragged them into the sector. Many of them made their investments only by using a simple calculator to calculate the expected cash flow, without examining any detailed feasibility studies. A technical analysis on the privatisations of electricity distribution companies claims that the private investors paid more than the real value of these companies in many cases, such as Gediz.<sup>556</sup> Interviewees converged on

<sup>555</sup> Karbuz and Sanlı, "On Formulating a New Energy Strategy for Turkey", pg. 100.

<sup>556</sup> Fatih Cemil Özbüğday, Bilal Ögünlü and Hasan Alma, "The sustainability of Turkish electricity distributors and last-resort electricity suppliers: What did transition from vertically integrated



this issue that the private sector paid more than the real value of electricity distribution companies. In this situation, many reasons combined made an effect, among them were wrong feasibility studies depending upon wrong premises, incorrect and erroneous data provided by the public electricity distribution company TEDAŞ about the electricity distribution companies to be privatised, and business culture in Turkey.<sup>557</sup>

The inclusion of private investors in the electricity sector helped government much in getting rid of heavy burdens on the public budget. In other words, with the help of private investors, the investment needs in the electricity sector of the country could be transferred to the private sector. More specifically, with the completion of privatisation in the distribution segment, the investment needs of these publicly-owned companies were transferred to the private sector. This was among key objectives of the whole privatisation story. For example, before privatisation, approximately 19,4% of the energy investment budget was allocated for electricity distribution infrastructure (see Figure 5.8). After privatisation, the electricity distribution companies invested 13,061 billion TL to infrastructure during the second implementation period, between January 2011 and December 2015.<sup>558</sup>

In fact, the huge amount of investment undertaken by the private sector was a big risk. The question of what private investors trusted to had a highly complex and differentiated set of answers. The first and basic motivation of them was a firm belief in strong demand growth in Turkey. All parties, not only private investors, but also consulting companies, banking sector, and the public side, estimated a strong and uninterrupted growth in the electricity consumption in

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public monopoly to regulated competition with privatized and unbundled firms bring about?" *Utilities Policy*, Vol. 39 (2016), pg. 58; Anonymous Turkish energy consultant, Ankara, interview.

<sup>557</sup> Yusuf Tülek, Obahan Obaoğlu, Oytun Alıcı, Ankara, various times, interview.

<sup>558</sup> *Elektrik Piyasası Gelişim Raporu 2017*, EPDK, Ankara, 2017, pg. 65.

Turkey. This proved wrong later. The private investors did not have any fear related to demand; so, they could invest comfortably, without any doubt in making handsome profits. The effects of optimistic demand estimates are examined in a more detailed way in the next chapter (see Chapter 6.2.1). Another reason which attracted private investors to the electricity sector was the effects of global finance structure. Because credit was abundant and cheap, private entrepreneurs did not hesitate much to invest in a sector promising high profits. That is to say, conditions of the global finance structure increased the risk appetite of the private investors, not only in Turkey, of course. Indeed, during the early phase of liberalisation, some generation investments had a few years payback due to high demand growth.<sup>559</sup> A former high rank energy bureaucrat even said that some natural gas plants had only two years payback!<sup>560</sup>

The combination of low structural risk and expected high-profit future dragged private entrepreneurs into the sector; one of the interviewees called this situation as “wishful thinking” about future plans.<sup>561</sup> The consulting firms and bankers should have worked more carefully with feasibilities, in order to avoid from, or minimise the effects of that wishful thinking. However, on the contrary, in some cases, feasibilities were changed by the banks and large-scale consulting firms. For example, one of the respondents calculated average electricity prices around 7-7,5 cents for his own customers at feasibility studies for new investments; these figures were later changed intentionally by some other consulting firms as 8-8,5 cents, upon the request of the creditor bank.<sup>562</sup> This investment bankrupted later. This is just a simple example to show the importance of the attitude of the banking sector in terms of electricity

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<sup>559</sup> Kenan Sitti, Ankara, October 2019, interview.

<sup>560</sup> An anonymous former high-rank energy bureaucrat, Ankara, interview.

<sup>561</sup> Obahan Obaoğlu, Ankara, November 2019, interview.

<sup>562</sup> Yusuf Tülek, Ankara, November 2019, interview.

liberalisation. Many of the projects were financed deliberately by the banking sector, and some of them fell in trouble later during the stagnation period.

As these examples show, the banking sector had a similar enthusiasm for financing the electricity liberalisation in order to claim their shares in the financial processes. The bulk of privatisations in distribution and generation segments, and of greenfield electricity investments were financed by the banking system. Until 2015, this was a logical choice for the banks because, in terms of domestic conditions, the energy sector was one of the most lucrative sectors in Turkey, and was promising for the future too. Furthermore, in terms of global economic atmosphere, the cost of money at the global markets was low. In other words, taking risk was 'cheap', for the banks. For these reasons, financing the projects in the electricity sector was fashionable at the global finance structure and in Turkey as well. It was fashionable due to two attributes of the global finance structure of that time.<sup>563</sup>

Firstly, until late-2015, the major central banks were still implementing quantitative easing programmes which were decreasing interest rates, and creating optimism about the economic growth and energy demand all over the world, including Turkey. Secondly, a strong positive perception, something like 'herd mentality' was created about financing the electricity investments, by the consulting firms and banks. If a major consulting firm prepared feasibility report for a project, it was easier for banks to finance that project, and the consulting firms earned more if the project was realised. Therefore, both banks and the consulting firms preferred projects to be realised. This chain served legitimising the allocation of massive credits to the electricity sector without any serious concerns. Turkey, as a developing country having weak influence on the global power structures, was no exception in following the trend in the global finance structure.

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<sup>563</sup> For a more detailed analysis of the external economic factors, see Chapter 5.1.1.

Therefore, the private investors who were urged to the sector by the state's encouragements were welcomed by the bankers warmly, and financed generously, as the statistics about the growth of credits allocated to the energy sector show. In this period, the weight of the credits given to the energy sector rose 61%, and reached to 5,9% of total credits, from its 3,6% level, in six years' time (see Figure 5.9). This turned out a fatal danger for both Turkish banks and electricity investors, and caused stagnation in the liberalisation process shortly after the deterioration in the Turkish economy. At the end of 2015, cumulative debt of the Turkish energy sector was 103,515 billion TL, 5,9% of total credits.<sup>564</sup> This corresponded to \$35,41 billion, as of December 31, 2015.<sup>565</sup> The adverse effects of changes in the global finance structure and Turkey's domestic economic conditions are examined in the next chapter.

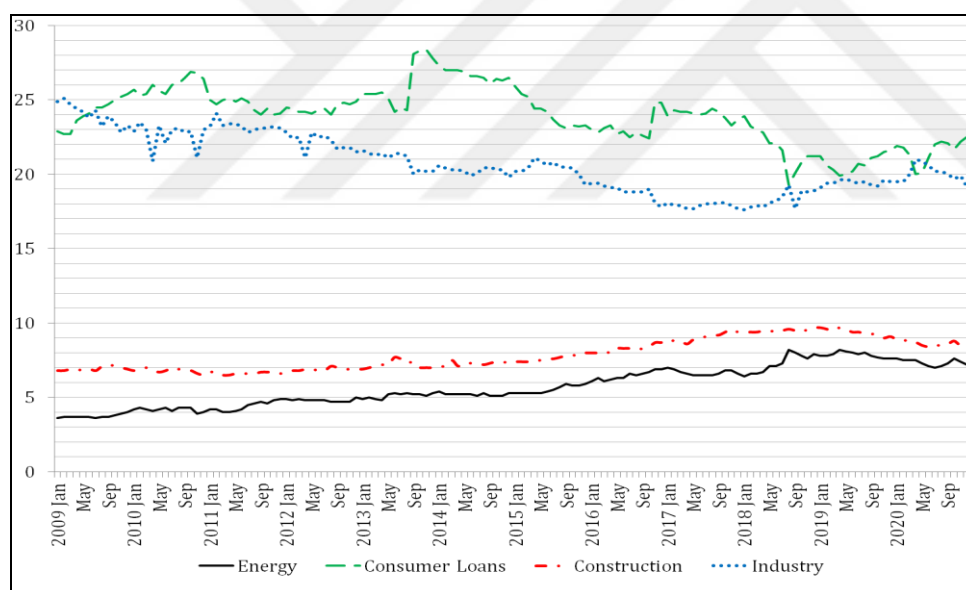


Figure 5.9 Sectoral Shares of Bank Loans in Turkey, as %, 2009-20<sup>566</sup> (Source: TBB)

<sup>564</sup> Data was compiled from the Banks Association of Turkey (TBB) database.

<sup>565</sup> Data was compiled from the Central Bank of Turkey database

<sup>566</sup> "Industry" comprises of sum of the metal industry, textiles industry, food and beverage industry, transportation vehicles industry, non metal industry, machine industry, chemical

All in all, the internal economic factors were supportive during the introduction of liberalisation, and they catalysed the process (see Table 5.6). The internal economic factors, on the one hand, pushed the state to liberalise the electricity sector, and, on the other hand, dragged the private sector into the process. Thus, a perfect match between public and private sectors occurred in terms of domestic economic conditions which constituted a suitable basement at the internal realm for the transfer of foreign-inspired electricity liberalisation policy. Transferring this policy helped the state to overcome lack of investment in the sector, and to relieve the budget. At the same time, the private sector found a new field to invest in. On the other hand, some small mistakes made during this period created bigger troubles in the next phase.

Table 5.6 Summary of Internal Economic Factors during Introduction Phase

| Main Factor                 | Impact     |
|-----------------------------|------------|
| Inability of Public Sector  | Supportive |
| Eagerness of Private Sector | Supportive |

### 5.2.2: Internal Political Factors

The electricity liberalisation, regardless of situation at the external economic, external political and internal economic realms, required political will at the domestic political level, ultimately. It was the domestic political realm where the reform was decided to be introduced. Therefore, an investigation on the effects of internal political factors is indispensable to understand how a foreign-inspired policy prescription was accepted at the national level. Despite the early steps towards liberalisation since 1980s (see Chapter 4.3.1), it gained momentum only in 2001, thanks to a thorough legal framework. In this respect, the electricity liberalisation policy has been one of the most durable reform endeavours of the Turkish republic with its almost 40 years history behind.

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products industry, plastic products industry, not classified manufacturing industry, electrical appliances industry, oil and coal products industry.

The success of the electricity reform in Turkey owed much to the favourable internal political factors which was a function of a devastating economic crisis in 2001. The instability created by 2001 crisis brought a snap election in November 2002, only 20 months after the crisis. Thus, the coalition partners could not have a chance to reap the positive results of the new economic stability programme which was maintained by the successor governments after the elections. Therefore, an event at the domestic economic environment had systemic repercussions on the domestic political environment. Still, some layers of bureaucracy and civil society opposed to the liberalisation programme and endeavoured to delay, or block it completely, if possible. On the other hand, consecutive governments maintained the programme. Ultimately, government side won the struggle in time, since it employed more of structural and persistent elements of political power.

### ***Opposing Internal Groups***

The first factor, existence of opposing layers in bureaucracy and civil society was not peculiar to the reform period only. When the preliminary restructuring in the electricity sector began in 1984, the resistance in some bureaucratic circles emerged too. The backbone of the bureaucratic resistance was the judiciary until the constitutional amendment in 1999, with Law No 4446.<sup>567</sup> Later, the resistance was sustained by the statist bureaucratic circles covertly, and by the civil society organisations overtly. Especially after 2002, due to existence of a strong government, opposing bureaucratic circles could not object to the reforms blatantly, and had to resort to 'guerrilla tactics'. They could not stop the reform altogether, but still managed to slow down it to an extent.

In the modern state apparatus, bureaucrats control the flow of information to the elected decision makers to a great extent. Thus, they play a determining role in delineation of boundaries of the available options in a specific issue at a

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<sup>567</sup> Resmî Gazete, August 14, 1999.

specific time. For this reason, what the Turkish bureaucrats thought about electricity liberalisation was important. The statist bureaucratic circles opted for a more statist model in the electricity sector and consisted of relatively older bureaucrats of the *ancien régime*.<sup>568</sup> All interviewees accepted the existence of objecting bureaucrats; this shows lack of consensus about the idea of restructuring at bureaucracy. These circles included officials from the Ministry of Energy, treasury, and even from the Privatisation Administration.<sup>569</sup> One of the respondents, by confirming this, said that the Turkish energy bureaucracy was never totally fond of liberalisation in fact.<sup>570</sup> Their main argument depended upon economic nationalism, and was that if the electricity sector was left to the private sector, this would have created risks about national security.

Indeed, this situation was not peculiar to Turkey; in many liberalising countries, similar statist objections occurred. Yet, in Turkey's case, the problem was that the concept of 'national security' included a wide range of economic aspects of energy issues even other than those which fall within the scope of energy geopolitics and energy supply security. For example, handling of financial and managerial matters about the electricity sector at the National Security Council meetings sheds light on the width of national security concept in Turkey.<sup>571</sup> The national security understanding in Turkey has traditionally been shaped by military, and, for this reason, their maximalist approach to the concept tended to include economic, political, and even cultural issues from time to time. The answer for the question why Turkey's privatisation programme did not include

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<sup>568</sup> The term *ancien régime* was used to refer to the dominance of royalist bureaucrats in pre-revolution France originally. Here, the term *ancien régime* was used to refer to the previous periods when bureaucrats who had anti-neoliberal and statist approaches had dominance in shaping the state policies.

<sup>569</sup> Anonymous former high-rank energy bureaucrat, Ankara, interview.

<sup>570</sup> Hasan Köktaş, Ankara, August 08, 2017, interview.

<sup>571</sup> For an example: Yelda Ataç, "MGK'da gündem enerji güvenliği", *Hürriyet*, April 18, 2005, <http://www.hurriyet.com.tr/ekonomi/mgk-da-gundem-enerji-guvenligi-312419>. About the national security understanding in Turkey, see: Pinar Bilgin, "'Only Strong States Can Survive in Turkey's Geography': The uses of 'geopolitical truths' in Turkey", *Political Geography*, Vol. 26 (2007), pp. 740-756;

the transmission segment was also this national security oriented understanding, although many other countries opted for the same. In spite of Turkey's initial plans to privatise the electricity transmission system via TOR model, as it was expressed at a letter of intent sent to the IMF in 1998, it was later abandoned, due to the objections of energy bureaucrats.<sup>572</sup>

In many cases, these statist bureaucratic circles and anti-liberalisation civil society organisations united their efforts not only for preventing the change case by case pragmatically, but also for opposing to the reform programme ideologically. On the pragmatic front, opposition to the privatisation programme was the most important battle.<sup>573</sup> The ideological resistance was mostly conducted by the professional associations such as the Chamber of Electrical Engineers (EMO, in its Turkish acronym), Chamber of Mechanical Engineers (MMO, in its Turkish acronym), and various labour unions. These like-minded organisations criticised liberalisation from an anti-neoliberal perspective harshly, on the basis of global exploitation of public assets by an alliance between the neoliberal capitalist circles and neo-conservative political groups. Relevant civil society organisations published studies which were prepared from an anti-neoliberal perspective, and these flooded the debates deliberately for shaping the public opinion on the matter.<sup>574</sup>

Nevertheless, they could just make a limited effect, due to lack of awareness on the issue at the public level, global discursive superiority of liberalisation at that time, and popularity of the newly-elected ruling party. The electricity liberalisation was not a grass-root demand requested by the society in Turkey;

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<sup>572</sup> Letter of Intent, June 1998, <https://www.imf.org/external/np/loi/062698.htm>; A former high rank energy bureaucrat, Ankara, interview.

<sup>573</sup> Erdoğan, "Regulatory reform in Turkish energy industry: An analysis", pg. 987.

<sup>574</sup> For some examples, see: Chamber of Electrical Engineers (EMO), *Elektrik Özelleştirmeleri Raporu*, Ankara, 2012; MMO, *Türkiye'nin Enerji Görünümü*, Ankara, 2010; EMO, *Elektrik Piyasaya, Ateş Vatandaşın Cebine Düştü*, Ankara, Ankara, 2010; EMO, *Elektrik Piyasası Çöküyor, Kamu İşbaşına*, Ankara, 2007.



on the contrary, it was a foreign-inspired and top-down reform movement utterly. It was learnt from global examples, and was embarked upon by the governments which were enthusiastic about reaping the benefits of neoliberal transformation. For this reason, intellectual opposition of the civil society organisations could make only a limited effect on a non-existent public opinion. This nonexistence of public attention at the national level left the country even more open to the global discursive superiority of neoliberalism which stemmed from its ecologically dominant status in shaping the global agenda of political economy (see Chapter 2.1).

To recapitulate, ecologically dominant position of electricity liberalisation depended upon the framework of the global knowledge structure which legitimised and advertised neoliberalism, and even blocked emergence of possible alternatives in the public opinion by de-legitimising anti-neoliberal ideas, from the perspective of Strange. Neoliberalism was the mainstream source of inspiration for economic prescriptions at home and abroad; so, the legitimacy of anti-neoliberal advices was eroded. Besides, the economic crises of late 1990s and 2001 erased the confidence in the entrenched beliefs and applications in Turkey largely.<sup>575</sup> The new, popular single-party government took advantage of this erosion in the entrenched beliefs and applications swiftly and smartly. The main element of JDP's strength was its success at November 2002 general election; it later clinched its politically hegemonic position in the following elections, and promoted convenient like-minded, pro-liberalisation bureaucrats to the higher ranks. Thus, the consecutive JDP governments constructed the necessary administrative capability to defeat the resistant circles in bureaucracy and civil society as they won the elections each and every time.<sup>576</sup>

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<sup>575</sup> Öniş, "Power, Interests, and Coalitions", pg. 709.

<sup>576</sup> Ibid.

### ***Governments' Support***

The second internal political factor, support at the level of government, was the most fundamental factor for the successful introduction of electricity liberalisation, and was produced by a function of other factors at the domestic economy. When the first EPK was adopted in 2001, a three-party coalition government, consisting of Democratic Left Party, Nationalist Movement Party, and the Motherland Party was in power. Shortly after the adoption of the first EPK, the 2001 economic crisis emerged, and a new centre-right conservative party, JDP, won the majority seats at the parliament, in November 2002. The crisis wiped out all of the major parties, ended the decade of coalition governments, and, most importantly, created a window of opportunity by paving the way for a strong one party government. This was more than an ordinary government change; it marked a watershed for the Turkish political life.

Furthermore, the depth of economic depression opened a vast political economic field to the new JDP government to manoeuvre freely by burying incumbent anti-neoliberal economic beliefs. Interestingly, the JDP governments maintained the liberalisation and privatisation policies of the previous government which was consisting of parties from democratic left, nationalist right, and liberal centre. This continuity proves that the electricity liberalisation found a systemic and persistent support at the level of government, or, governments, regardless of the basis they depend upon, were pushed towards electricity liberalisation structurally. In spite of their diverging ideological backgrounds, different governments converged on the neoliberal structuralisation in the electricity sector. At this point, it is safe to claim that, effects of global finance and knowledge structures were influential in this continuity by the way of creating economic and political incentives associated with liberalisation as well as the domestic political developments. The global power structures can thus be observed through their effects at the domestic theatre.

Nevertheless, support at the level of government, and the pace of reform, was not linear, but fluctuating as parallel to the domestic political agenda of governments.<sup>577</sup> In this sense, the public choice theory is useful for analysing the domestic political factors. The public choice theory examines the interaction between politicians, voters and the other participants of the political decision making. It differs especially from the rational choice theory by not taking the national interest as its only focal, and by recognising the need of all interacting actors to maximise their self-interests.

From the perspective of public choice theory, the JDP governments followed a complex path: attracting private (particularly foreign) investors to the sector by assuring a satisfying economic return, while insulating especially the residential electricity consumers from the annoying price hikes, thus maintaining a consolidated mass of voters in the elections to isolate itself from the negative unintended consequences of liberalisation, and reducing the political risk threatening the economic returns expected by the investors. By doing so, government insulated household consumers from price increases, and household consumers insulated the government from vote decreases. Additionally and most importantly, the governments could adjust the pace of reform in accordance with their own domestic political gains. The JDP governments seemed reluctant to advance the reform process, when the perceived political costs exceeded the possible returns of further liberalisation. In other words, when further liberalisation became politically more costly, the governments became more hesitant about advancing the liberalisation process, and halted it unless the domestic political conditions seemed suitable enough. Ideally, further liberalisation required transfer of administrative initiative from the ministry (ETKB) to the independent regulator (EPDK). However, the

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<sup>577</sup> Sönmez, "Türkiye'de piyasa reformları ve düzenleyici reformlar", pg. 154.

electricity market was exploited as a tool for political interests and rent seeking, and governments did not let their power over the sector vanish easily.<sup>578</sup>

Despite the JDP's success at all elections after 2002, 14 elections during 17 years (14,3 months/election), the success came at a cost in terms of electricity liberalisation (see Table 5.7). For instance, although the first EPK envisaged direct cash refunds to consumers, the first strategy paper (March 2004) brought a price equalisation scheme (Law No 5496) for the transition period which would have ended at the end of 2010.<sup>579</sup> The equalisation scheme was used by governments as a means to transfer wealth among various socioeconomic groups. Later, with the law 5784, the transition period, and the price equalisation scheme was extended until 2012.<sup>580</sup> Following it, with the new EPK (Provisional Article 1, Law No 6446), cross-subsidies was extended until 2015, and the Council of Ministers was authorised to extend it for five more years.

Table 5.7 Elections in Turkey after Adoption of the First EPK (Source: Own Elaboration)

| <b>Year, Month</b> | <b>Type</b>           |
|--------------------|-----------------------|
| 2002, November     | General Election      |
| 2004, March        | Local Election        |
| 2007, July         | General Election      |
| 2007, October      | Referendum            |
| 2009, March        | Local Election        |
| 2010, September    | Referendum            |
| 2011, June         | General Election      |
| 2014, March        | Local Election        |
| 2014, August       | Presidential Election |
| 2015, June         | General Election      |
| 2015, November     | General Election      |
| 2017, April        | Referendum            |
| 2018, June         | General Election      |
|                    | Presidential Election |

<sup>578</sup> Çetin and Oğuz, "The politics of regulation in the Turkish electricity market", pg. 1767.

<sup>579</sup> Resmî Gazete, May 24, 2006.

<sup>580</sup> Resmî Gazete, July 26, 2008.

|             |                           |
|-------------|---------------------------|
| 2019, March | Local Election            |
| 2019, June  | İstanbul Mayoral Election |

Table 5.7 (continued)

In fact, the EPDK was eager to initiate a cost-based regional pricing mechanism in 2003; however, the government opposed this strictly. Although it was against the European directives, the government's objection was political; because, the price equalisation scheme subsidised electricity theft, but provided the government with political support (especially in southeast of the country), by keeping the national electricity prices at an average. If the regional pricing had been introduced, a great difference in regional prices would have occurred among low-theft and high-theft regions, according to a study.<sup>581</sup> One of the interviewees said that there would have emerged a "terrible" difference between regions, if regional pricing had been implemented.<sup>582</sup> One of the former high rank energy bureaucrats who dealt with these issues at those times said that the difference would be more than 10 times.<sup>583</sup> Another way of exploiting the electricity prices for political purposes was restructuring the electricity debts, especially of farmers, as in 2005, and 2014.<sup>584</sup> In this way, since the perceived political cost exceeded the expected economic return, the government chose exploitation of electricity as a political commodity, instead of institutionalising competition. However, it is necessary to note that fiscal gatekeepers of the state tried to resist to these populist endeavours, to some extent.<sup>585</sup>

<sup>581</sup> Tamer Çetin, "Structural and Regulatory reform in Turkey: Lessons from public utilities", *Utilities Policy*, Vol. 31 (2014), pg. 101.

<sup>582</sup> Metin Başlı, Ankara, November 2019, interview.

<sup>583</sup> Anonymous former high rank energy bureaucrat, Ankara, interview.

<sup>584</sup> "Çiftçinin borç faizi silindi", *Vatan*, January 18, 2005, <http://www.gazetevatan.com/ciftcinin-borc-faizi-silindi-44999-ekonomi/>; "Çiftçinin elektrik borcunu yeniden yapılandırması için son tarih 30 Kasım", *Hürriyet*, October 7, 2014, <http://www.hurriyet.com.tr/ekonomi/ciftcinin-elektrik-borcunu-yeniden-yapilandirmasi-icin-son-tarih-30-kasim-27336114>.

<sup>585</sup> "Elektrik borçlarına faiz affı geliyor", *Milliyet*, January 12, 2005, <https://www.milliyet.com.tr/ekonomi/elektrik-borclarina-faiz-affi-geliyor-101871>.

At the internal realm, lawsuits, and bureaucratic reshuffle were creating some effects as well. The first strategy paper determined privatisation of electricity distribution companies before public electricity generation facilities, despite the opposite order in the first EPK. One of the main internal political factors necessitating this change was the lawsuits about the energy sector, such as White Energy (*Beyaz Enerji*, in Turkish). In the framework of the White Energy lawsuit, many high rank energy officials, including one former energy minister, were arrested due to corruption allegations about BOT procedures. Later, these claims were also examined by the Supreme Court between 2004 and 2007.<sup>586</sup> These lawsuits left ineradicable effects on the energy bureaucracy in a way to create spontaneous obstacles during the liberalisation process, according to some. Some respondents claimed that energy bureaucracy desired to get rid of the responsibility having faced with risks during White Energy.<sup>587</sup> However, some other respondents did not agree with this view.<sup>588</sup> Still, electricity distribution companies were privatised in the first place to create credible private sector counterparts for electricity generation companies. If the public generation companies had been privatised first, the directors of electricity distribution companies might have been reluctant in making electricity purchase deals with the private generation companies, in order to protect themselves from similar claims about corruption, similar to those ones in the White Energy.<sup>589</sup>

The first strategy paper, in addition, brought significant deadlines for reform; unfortunately, many of which were missed due to the political atmosphere of the coming general election in 2007. For example, privatisations of electricity

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<sup>586</sup> Decisions of the Supreme Court, Decision No: 2005/1, <http://www.anayasa.gov.tr/files/pdf/Ydivan2005-1.pdf>; and Decision No: 2007/1, <http://www.anayasa.gov.tr/files/pdf/Ydivan2004-3.pdf>.

<sup>587</sup> Yusuf Tülek, Oytun Alıcı, Ankara, various times, interview.

<sup>588</sup> Metin Başlı, Ankara, November 2019, interview.

<sup>589</sup> Esra Gürakar et al., *Yolsuzluk Raporları 2016: Türkiye Enerji Sektörüne İlişkin Bir Değerlendirme*, TESEV Yayınları, İstanbul, 2016.

distribution companies were targeted to be completed until December 31, 2006, yet it could only be completed in 2013. The main reason for this delay was the nature of electricity as a 'political commodity'. The government sought for retaining its authority on the sector, and postponed the tenders before the 2007 elections.<sup>590</sup> The long term intent toward liberalisation did not match with short term political necessities. While politicians had purpose to liberalise the sector, their short-term interests and bureaucrats' opposition caused them to remain tied to the reigns of economic power and rent sources.<sup>591</sup> On the other hand, because of not advancing reform process and cheap electricity prices, the private sector remained hesitant about constructing new generation capacity.<sup>592</sup> This created risks for electricity supply security which came true with a blackout affecting 13 provinces in the western Turkey, on July 1, 2006.<sup>593</sup>

Before the blackout, the government was trying to keep electricity prices low for two reasons: Avoiding from loss of popular support before the elections, and sustaining the disinflation programme which was initiated with the 2001 crisis, as a part of macroeconomic rebalancing. Curbing inflation at the expense of larger future deficits seems politically rational for governments, as the public choice theory would suggest, because the future deficits will be handled by the future governments, but the current inflation is a problem of the current government.<sup>594</sup> There were insufficient investment and cheap prices behind the supply crisis as the prices were not raised between November 2002 and

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<sup>590</sup> Sönmez, "The Political Economy of Market and Regulatory Reforms in Turkey", pg. 120; K.Ali Akkemik and Fuat Oğuz, "Regulation, efficiency and equilibrium: A general equilibrium analysis of liberalization in the Turkish electricity market", *Energy*, Vol. 36 (2011), pg. 3283.

<sup>591</sup> Ulusoy and Oğuz, "The privatization of electricity distribution in Turkey: A legal and economic analysis", pg. 5022.

<sup>592</sup> Atiyas, *Reforming Turkish Energy Markets*, pg. 42.

<sup>593</sup> "Ürküten karanlık", *Hürriyet*, July 2, 2006, <http://www.hurriyet.com.tr/gundem/urkuten-karanlik-4684595>; "Kamu 58 milyon YTL'lik faturayı ödemezse, elektrik üreticisi şalter indirecek", *Dünya*, June 25, 2008, <https://www.dunya.com/ekonomi/kamu-58-milyon-ytl039lik-faturayi-odemezse-elektrik-ureticisi-salter-haberi-30826>; "Şalter zam için inmiş", *Yeni Şafak*, July 4, 2006, <https://www.yenisafak.com/arsiv/2006/temmuz/04/e02.html>.

<sup>594</sup> Durakoğlu, op. cit., pg. 5581.

December 2007, although the consumer price index increased 40%.<sup>595</sup> According to a calculation, in the third quarter of 2007, the electricity price index fell to 70, from 100, its 2003 first quarter level, in real terms.<sup>596</sup> However, non-existent electricity was posing a greater threat to the government than expensive electricity. Thus, shortly after the blackout, Balancing and Settlement System came into operation in August 2006 as an emergency response, and the market started to reflect scarcity prices. Therefore, after 2007 elections, the electricity price was increased by 15% in January 2008; the prices were later doubled in the following 51 months (see Figure 5.10).<sup>597</sup>

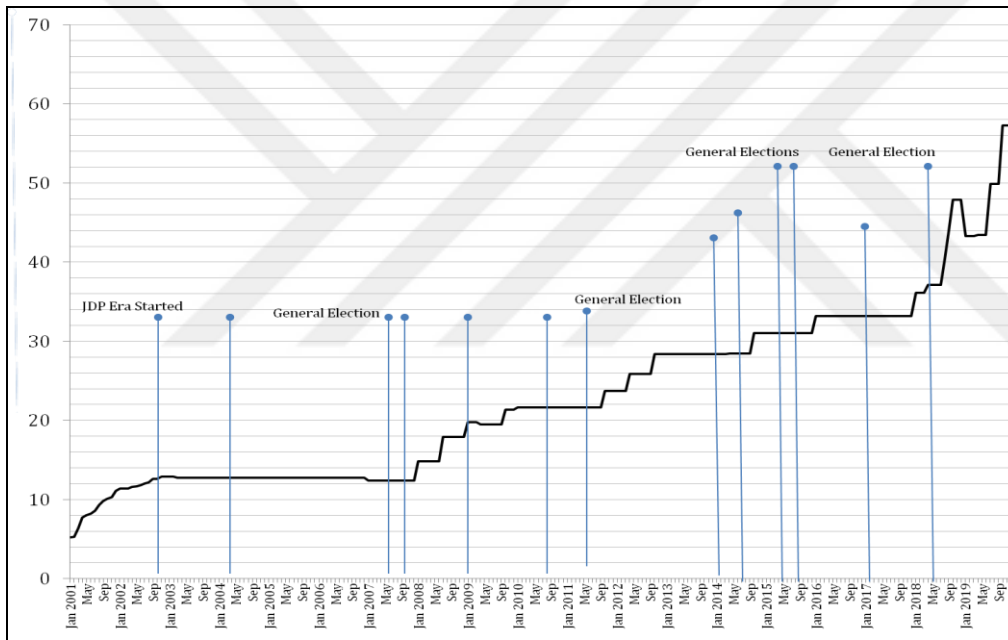


Figure 5.10 Elections and Nominal Residential Electricity Prices, as kWh/TL  
kuruş, 2001-20<sup>598</sup> (Source: Own Elaboration)

<sup>595</sup> The data was compiled from TÜİK database.

<sup>596</sup> Akkemik and Oğuz, op. cit., pg. 3283.

<sup>597</sup> For an example media report on the issue, see: "Elektrik fiyatlarına yüzde 15 zam geliyor", *Hürriyet*, December 25, 2007, [http://bigpara.hurriyet.com.tr/haberler/genel-haberler/elektrik-fiyatlarina-yuzde-15-zam-geliyor\\_ID625289/](http://bigpara.hurriyet.com.tr/haberler/genel-haberler/elektrik-fiyatlarina-yuzde-15-zam-geliyor_ID625289/).

<sup>598</sup> The residential electricity tariff was used for calculations. Data was compiled from TEDAŞ database.



Nearly all major electricity price increases were made right after the elections, and were deliberately avoided before the elections. For example, shortly after the June 2011 general election, the electricity price was increased nearly 10% in October, and the cumulative increase reached to 31% in the next 12 months, when compared to the pre-election levels. Similarly, June and November general elections in 2015 were followed by a 7% increase in prices within a two months' time. As the most striking example, after the June 2018 election, electricity prices were increased by almost 30% in three months. This behavioural pattern simply shows that despite serious steps towards liberalisation, government tended to exploit electricity as a political commodity.<sup>599</sup>

To sum up, the internal political factors were not straightforwardly supportive unlike the other three realms. Yet, the governments' sustaining support was enough to initiate and advance liberalisation to a considerable maturity. Despite opposition from some bureaucratic circles and civil society organisations, the JDP's success in sequential elections clinched its political influence, and legitimised its policies, including its pragmatic approach towards liberalisation of electricity market (see Table 5.8). Although the process did not advance until 2004, liberalisation started to progress later. Ultimately, it can be said that if political authority maintains its support to liberalisation, then it means that it perceives the ratio of 'possible returns / perceived political costs' greater than one; this means that the government regards further liberalisation feasible.<sup>600</sup> Simply for these reasons, the internal political factors can be regarded as supportive during the introduction phase.

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<sup>599</sup> Özbuğday, Ögünlü and Alma, "The sustainability of Turkish electricity distributors and last-resort electricity suppliers", pg. 55.

<sup>600</sup> For further details about the meaning of this ratio, see Chapter 1.2.

Table 5.8 Summary of Internal Political Factors during Introduction Phase

| Main Factor              | Impact     |
|--------------------------|------------|
| Opposing Internal Groups | Preventive |
| Governments' Support     | Supportive |

This chapter answered its organising question, “how and why did global power structures did influence Turkey’s electricity sector policy towards liberalisation?” The first part of this chapter, structural power analysis of the external realm, showed that changes in the global power structures created a tendency in Turkey to adapt to electricity liberalisation from the beginning, and external economic and political factors caused an increasing pressure on the country, even before they had a disciplining edge over Turkey’s domestic economic and energy policy preferences, by taking advantage of the country’s structural dependency upon global finance structure and need for integration with the EU, to fuel its economic growth and stay on the map for international investors. During this period, the public choice theory analysis demonstrated, the intervening variable (internal realm), did not make a distorting and diverting effect on the adaptation process of Turkey to the changes in the global power structures and the new organising principle of the electricity sector (e-Lectricity). On the other hand, again at this phase of the restructuring process, the Turkish banks behaved insufficiently careful in financing the risk appetite of private investors which later turned into a trouble during the stagnation period.

The next chapter will analyse the stagnation of the Turkish electricity liberalisation; thus, these two chapters will enable the reader to compare and contrast similarities and differences between the two different phases of the same restructuring process. At the same time, changes and continuities in both independent and intervening variables will be examined during both phases. In this way, implications about the global power structures, their effects on a typical developing country, and Turkey’s domestic energy policy preferences

will be made from an international political economy perspective comparatively and more easily at the conclusion chapter.



## **CHAPTER 6**

### **STRUCTURAL POWER AND STAGNATION OF ELECTRICITY LIBERALISATION IN TURKEY**

In this chapter, the stagnation phase (2016-2020) of the Turkish electricity liberalisation will be examined. On which grounds the thesis claims that there is stagnation in the neoliberal structuralisation of the Turkish electricity sector has been explained in one of the previous sections (see Chapter 4.3.3). Therefore, this chapter will directly begin from where the previous chapter about the introduction of liberalisation (2001-2015) ended. In order to analyse the stagnation phase, it is necessary to identify the political economic factors which brought the stagnation of the Turkish electricity liberalisation. These factors will be examined from a structural power perspective with the purpose of finding their roots stemming from external and internal realms.

For this reason, various factors from external economic, external political, internal economic, and internal political realms are analysed with reference to the global power structures of finance, knowledge, and energy; and it is seen that especially domestic economic and political situation had a preventive effect on further liberalisation, contrary to their strongly supportive effect at the introduction phase. On the other hand, continuing supportive effects of the external economic and political factors were not enough to sustain the momentum of the previous phase. In this sense, because the internal factors had a more decisive role on this situation than the external factors, the related parts will be highlighted more. Since the distinctive attribute of this second phase is stagnation in the liberalisation process, the chapter will shed light on the

relationship between global power structures and internal political economic context in order to reveal the reasons for why the liberalisation process decelerated, stagnated, and even regressed, although it had reached a certain level of maturity during the previous phase.

The organising question of this chapter is “why did electricity liberalisation stagnate in Turkey, despite constant global power structures?” Thus, mutual effects of independent and intervening variables against each other will be possible to identify. This is of utmost significance; because, in-depth analysis of the stagnation period shows that in spite of the fact that independent variable is highly influential in shaping Turkey’s domestic energy policy preferences and remains positive throughout the entire liberalisation process, the intervening variable have been in determining position for the pace and attribute of the reform regarding the change in the dependent variable, occurrence of stagnation in the electricity liberalisation. This does not mean that there is an established hierarchy between the two, although the latter variable is more influential on the dependent one. Hence, the argument is more like identifying the boundaries of effects of the intervening variable. Therefore, the answer of the organising question of this chapter will constitute the second part of the main argument, and will enable the reader to understand what caused Turkey’s adaptation to the changes in the global power structures to become a hybrid and non-linear one.

### **6.1: External Realm**

The electricity liberalisation programme, once initiated, created its own interest groups within the country, although it was originally a foreign-inspired policy prescription. Still, the external economic and political factors continued to be important for the advancement of the restructuring process. Not only the external economic factors, but also external political factors continued to make supportive effects on liberalisation. On the other hand, it is necessary to note

that the relative influence of some economic and political factors weakened. This was basically due to changes in the global finance structure. The negative changes in the global finance structure have wiped out some extra contributory effects to the global economic growth by curbing the risk appetite of the investors. Naturally, this closely affected Turkey's electricity liberalisation too; yet, this is not to say that global finance structure evolved into a preventive character, it just forced investors to take their investment decisions more rationally, not with an extra high risk appetite. When it comes to the global power structures of knowledge and energy, it is safe to claim that global dominance of both neoliberal prescriptions and the current organising principle of the electricity industry (e-Lectricity) have still persisted in the same way as they were during the introduction period (see Chapter 3.2). In other words, there have emerged no radical changes in the power structures regarding how things shall be done in the electricity sector.

#### **6.1.1: External Economic Factors**

Turkey's developing country position in the global economy has always left it open to effects of the changing global circumstances, both during the introduction and stagnation phases of liberalisation. Although there has been no change in Turkey's status in the global power structures from structural power standpoint, some unfavourable changes occurring at the global finance structure, slightly changed the attribute of the independent variable. Still, external economic factors have continued to be supportive during the stagnation period. Nonetheless, differently from the previous phase, because Turkey escaped from disciplining edge of the global finance structure by improving its domestic economic conditions, external economic factors were not actively enforcing or encouraging to further liberalisation this time, but were only favourable passively. Examining these changing external economic factors affecting the stagnation period through the effects of the international financial institutions and tightening global finance structure seems more helpful both taxonomically, and in terms of comparison with the introduction period. It

will also help to comprehend the changing conditions at the global finance structure.

### ***International Financial Institutions***

The first external economic factor, the international financial institutions continued supporting the liberalisation process precisely during the stagnation period, by both promoting further liberalisation and providing finance. The former, promoting further liberalisation, has yet been different in character than it was in the introduction phase when the international financial institutions were able to pressurise the Turkish governments by taking advantage of the country's acute need for foreign finance throughout the economic crises of 1990s and 2000s. That is to say, they had stick option in case of need at the previous phase when Turkey was in acute need of finance. However, towards the stagnation period, they had lost this option gradually since both the country's acute need disappeared and became increasingly more capable of meeting its financial needs from the global money markets without resorting to these institutions. In other words, the only option remained available to international financial institutions was incentivising Turkey through carrots. The carrot was providing the country with targeted loans, and, the international financial institutions sustained their financial support to the country during this period uninterruptedly.

Therefore, it is safe to claim that, the attitude of the international financial institutions towards Turkey did not change in the stagnation phase. That is to say, this element of the independent variable remained constant. For example, after 2015, the World Bank's support to two projects alone, Turkey Geothermal Development Project and Turkey Energy Efficiency in Public Buildings, were a total of \$475 million loan.<sup>601</sup> However, many projects accepted before 2016 continued to be supported (see Table 5.1). When specific examples are

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<sup>601</sup> "Turkey Geothermal Project", *World Bank*, <http://projects.worldbank.org/P151739?lang=en>.

investigated, it is seen that the international financial support to the Turkish electricity sector diversified with the participation of new financiers. The other international financial institutions continued to finance new projects; for example, the European Bank for Reconstruction and Development (EBRD) provided the Turkish electricity sector with a total \$944 million and 270 million TL credits only in three years' time (see Table 6.1). The European Investment Bank (EIB) was another supplier of credit for the Turkish energy sector in this phase, too. It provided the investors with a €475,693 million credits during this phase.<sup>602</sup>

Table 6.1 EBRD Supported Electricity Projects in Turkey, after 2015 (Source: EBRD)

| Project Name                                 | Support        | Year |
|----------------------------------------------|----------------|------|
| Karacaören HEPPs                             | \$44 million   | 2016 |
| Tredaş Financing                             | \$200 million  | 2016 |
| Aksa Enerji Bond                             | 100 million TL | 2016 |
| Zorlu-Kızıldere III GPP Extension            | \$70 million   | 2016 |
| Enerjisa Enerji - Bond                       | 100 million TL | 2017 |
| Zorlu Osmangazi Bond                         | 70 million TL  | 2017 |
| Privatisation of Menzelet and Kılavuzlu HPPs | \$100 million  | 2017 |
| OEDAŞ Financing                              | \$110 million  | 2018 |
| Mersinli Wind Farm                           | \$20 million   | 2018 |
| Akfen Solar Power Project                    | \$55 million   | 2018 |
| Akfen Wind Power                             | \$65 million   | 2018 |
| Global Biomass Project                       | \$18 million   | 2018 |
| Enerjisa Enerji Loan                         | \$225 million  | 2020 |
| Kıyıköy WPP Extension                        | \$37 million   | 2020 |
| <b>Total: \$944 million + 270 million TL</b> |                |      |

It can be said that these western-oriented international financial institutions maintained their policy financing attitude towards Turkey during the stagnation period as well. Needles to say that they prioritised the compatibility with the current organising principle of the energy structure (see Chapter 3.3), in the projects they financed. It is important to note that this attitude of international

<sup>602</sup> Data was compiled from the European Investment Bank database



financial institutions also corresponds to continuity in the global power structures which affect how things shall be done in the energy business, since these institutions are the gatekeepers and norm-builders of the global system. Yet, differently from the introduction phase, Turkey started to diversify its financiers with international financial institutions from other parts of the global finance structure, by including more Asia-oriented credits, alongside its traditional western financiers. In this sense, the Asian Infrastructure Investment Bank (AIIB), led by China's initiative, has been a prominent example. The Asian Infrastructure Investment Bank's support to Turkey generally, and to Turkish energy sector specifically has become an important source for the sector. Turkey, until 2020, has received \$1,5 billion and has been the third largest recipient of the Asian Infrastructure Investment Bank credits.<sup>603</sup> Alongside the economic aspects of the topic, "Ankara's interest in the AIIB is part of its recent pivot to Eurasia and its self-identification as a rising power with a growing regional and global crossroads agenda".<sup>604</sup>

### ***Tightening Global Finance Structure***

The latter external economic factor, tightening global finance structure, was a reflection of considerable changes at the global finance structure. It was an outcome of the quantitative tightening policy mainly, and pointed out to an approaching future when cheap money will not be as plentiful as it was before, not only for Turkey, but also for the other countries demonstrating similar economic characteristics in the global finance structure. The introduction of liberalisation was helped by the suitable conditions of global finance structure, where cheap money could be borrowed abundantly. This attribute of the global finance structure evolved into another and less helpful one, in a relatively short period of time. At the previous phase, the global finance structure was characterised by quantitative easing policy, whereas at the stagnation period, it

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<sup>603</sup> Köstem, op. cit., pg. 650.

<sup>604</sup> Ibid., pg. 645.

turned into quantitative tightening. As Susan Strange suggested, this structural change also meant a spontaneous change in the range of options open to the others in the structure. During the financial abundance era, countries and private investors had the luxury to behave more freely and with a higher degree of risk appetite; for example, during the previous abundance period, more risky or less profitable projects could be financed easily alongside truly profitable and rational ones. However, after the changes in the global finance structure, both of them were forced to take their steps more carefully and planned.

Because the quantitative tightening policy started to drain large sums of money from the global finance structure gradually, it increasingly became harder and more expensive to buoy the economic activity for countries which had saving-investment gap or current account deficit. Before quantitative tightening, quantitative easing helped it to liberalise economic sectors for policymakers who only needed to exhibit a mediocre administrative capacity. As one of the former US presidents, Grover Cleveland, reminded a famous proverb, “in calm water, every ship has a good captain”. However, when the US Federal Reserve Board (Fed) decided to stop increasing its stockpile of bonds in late 2013, the early signs of the coming quantitative tightening appeared.<sup>605</sup> This caused many structural changes in the global economy; but, deterioration in two main areas in comparison to the introduction phase, lessening FDI inflow, and raising interest rates, were more significant than the others.

The less FDI inflow did not mean that Turkey’s share in the global FDI shrank; despite minor fluctuations around 2016-2017, it stayed the same more or less (see Figure 5.2). It rather meant a considerably shrunk world total FDI which, according to the UNCTAD, has been decreasing since 2015 steadily.<sup>606</sup> In spite of

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<sup>605</sup> Board of Governors of the Federal Reserve System, *Quarterly Report on Federal Reserve Balance Sheet Developments*, Federal Reserve Board, November 2016, pg. 5.

<sup>606</sup> Data was compiled from UNCTAD database.

the fact that Turkey could manage to keep its share in that shrinking world total, the share of energy investments in the total FDI inflow to Turkey has plummeted since 2013 continuously (see Figure 5.2). This interestingly coincides with the sharp decrease in the theoretical utility factor of the electricity generation plants in 2013 when it fell below 60% for the second time in the Turkish electricity history; it has not recovered since then (see Figure 6.5).<sup>607</sup> If this decline in the FDI inflow to the Turkish energy sector is compared with the ratios of FDI inflow/GDP and FDI inflow/World total FDI in a temporal manner, it is seen that there was not a parallel decline in them (see Figure 6.1). In other words, foreign investors preferred investing to the Turkish energy sector less, deliberately.

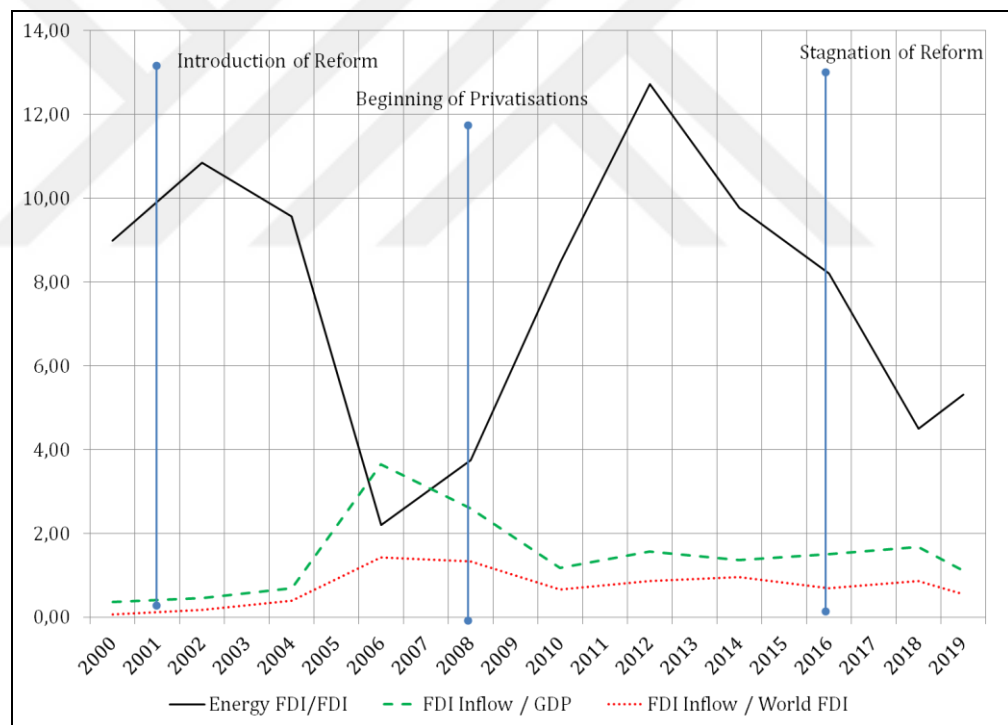


Figure 6.1 Energy FDI/FDI, FDI Inflow/GDP, FDI Inflow/World FDI Ratios, as %, 2002-19 (Source: UNCTAD, TCMB)

<sup>607</sup> The first one was between 1987 and 1994.

This proves that the FDI to the Turkish energy sector declined due to worsening expectations about the future profitability of energy investments in Turkey. One of the high-rank energy bureaucrats confirmed this by claiming that the last years when investors predicted a satisfying profitability were around the year 2011 and the investment decisions taken at those times realised until the years 2016-2017; after that fewer investors found profitability of the energy investments in Turkey enough.<sup>608</sup> These worsening expectations, most probably, included those about profitability which started to weaken parallel to the decreasing utility factors, peak load growth, and US dollar electricity prices in Turkey. The raising calls in the sector for the state support coherently complete this chain of argumentation, and sheds light on why the foreign investors reduced investing in the energy sector. Naturally, already shrinking FDI flowed towards the other, more profitable projects. In this vein, the shrinking share of energy in the FDI inflow does not seem as a cause, but a consequence in itself; the changing character of the global finance structure narrowed the range of options to more profitable investments, and less profitable or risky projects became not feasible parallel to the decreasing risk appetite in the global finance structure.

Nevertheless, the Turkish electricity sector achieved attracting some big foreign investments, even during the stagnation period. For example, in the first solar YEKA, a consortium of Turkish Kalyon Holding and South Korean Hanwha won the bid which was planned to bring \$1,3 billion investment, and half of which is expected to be foreign. Later, South Korean Hanwha was replaced by the Chinese China Electronics Technology Group Corporation, and the investment was completed in August 2020.<sup>609</sup> Similarly, in the first wind YEKA, a consortium of Türkerler and Kalyon Holdings from Turkey, together with Siemens Gamesa from Germany, won the bid which was planned to bring a sum

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<sup>608</sup> Anonymous high-rank energy bureaucrat, Ankara, 2019, interview.

<sup>609</sup> Ebru Şengül, "Turkey's 1st solar cell integrated plant starts ops.", *Anadolu Agency*, August 18, 2020, <https://www.aa.com.tr/en/energy/investments/turkeys-1st-solar-cell-integrated-plant-starts-ops/30256>.

of investment above \$1 billion. The problem was, these foreign investments could be tempted through guarantee of purchase over foreign currencies, by neutralising the risks intrinsic to the concept of free market. This explicitly demonstrated that when a certain rate of profitability and financial flows were guaranteed, foreign finance were still eager to flow into the Turkish electricity sector, but investors perceived investments in Turkey risky under free market conditions. It is also important to note that during the stagnation phase, foreign direct investment to the Turkish electricity sector diversified by the source country; for example, Chinese investors took place at Emba Hunutlu coal thermal power plant which cost \$2,1 billion.<sup>610</sup> These examples are basically why external economic factors should be regarded as supportive, despite various problems.

An equally unfavourable trend in the global finance structure for the Turkish electricity sector was the raising interest rates. When the quantitative easing policy was replaced by the quantitative tightening, the money supply circulating throughout the global finance structure had started to decrease gradually, and interest rates moved upwards, in a way to signal the change in the global finance structure. Therefore, the raising interest rates were a direct outcome of the quantitative tightening policy. In the new environment of global finance structure access to cheap money would be harder, especially for the developing countries like Turkey, where economic outlook is more prone to instability and tied to conditions of the global finance structure. When the major central banks such as the Fed, Bank of England, European Central Bank, and Bank of Japan started quantitative easing programmes in order to minimise the harmful effects of the 2008 financial crisis, what they did was pumping money into the global economy simply. Thanks to the suitable global economic environment created by these quantitative easing programmes and lowering interest rates,

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<sup>610</sup> "Thermal power plant worth \$1.7B to be established in Adana", *Daily Sabah*, October 26, 2017, <https://www.dailysabah.com/energy/2017/10/27/thermal-power-plant-worth-17b-to-be-established-in-adana>; Kurumsal, Emba, 2021, <https://embapower.com/tr/#corporate>.

the electricity liberalisation in Turkey advanced much more easily at the previous phase (see Chapter 5.1.1).

However, in 2013, the Fed declared that it would taper its bond buying starting from 2014, and later, in fall 2017, it announced the start of normalising its balance sheet by reducing its asset holdings.<sup>611</sup> This inevitably pushed the US dollar interest rates upward, starting from 2014. Between 2014 and 2017, USD Libor increased almost three times in three years; while doubling in the following two years, between 2017 and 2019 (see Figure 5.3). Because investors quitted from the currencies of the developing countries such as the Turkish lira, higher interest rates in dollar brought appreciation of it against lira, which plummeted more than 50% between 2016 and mid-2019 (see Figure 6.6).

At the first glance, this change in the global finance structure, from financial abundance towards financial tightness, may seem catastrophic news for a financially dependent country like Turkey; yet, the composition of the debts prevented it to turn so very quickly. The main problem about the raising interest rates was the eroding economic feasibility of the new projects; as the interest rates went higher, the new projects became economically less feasible due to more expensive cost of money. In this sense, Turkey's growth model which has always needed uninterrupted inflow of foreign finance gains significance. This made the domestic economic conditions highly sensitive to the global economic outlook; when the latter became less favourable, problems emerged in the former as well.<sup>612</sup> In this framework, the raising interest rates did not contribute to stagnation of liberalisation process directly; it corroded

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<sup>611</sup> JeeYeon Park, "Fed to taper bond buying by \$10 billion a month", *CNBC*, December 18, 2013, <https://www.cnbc.com/2013/12/18/fed-begins-taper-program.html>; Sam Fleming, "US Federal Reserve calls historic end to quantitative easing", *Financial Times*, September 20, 2017, <https://www.ft.com/content/caf45d6a-9e28-11e7-8cd4-932067fbf946>.

<sup>612</sup> Volker Ziemann, *Growth remains buoyant in Turkey but fundamentals need to be strengthened*, OECD Ecoscope, July 13, 2018, <https://oecd ecoscope.blog/2018/07/13/growth-remains-buoyant-in-turkey-but-fundamentals-need-to-be-strengthened/>.

the Turkish economy by worsening the existing macroeconomic imbalances which contributed to the economic slowdown in Turkey, prepared the ground for depreciation of lira, and ultimately, damaged the price and debt structure of the Turkish electricity sector. Therefore, there is a complex and indirect correlation between raising interest rates and stagnation of liberalisation process in Turkey.

Alongside its preventive effects on the economic feasibility of the new investments, the changing interest rates had two diverging effects on the existing debts. Since the share of dollar debt stock which had variable interest rate in the total private sector debt was 40%, raising interest rates negatively affected even a large portion of the existing debt stock. On the other hand, the same ratio was 71% for euro debt stock, and the interest rates in euro were decreasing even further. Therefore, while dollar borrowers had serious problems, euro borrowers were in a better position in terms of expected financial flows, regarding the level of interest rates only; effects of the falling Turkish lira will be examined later. In short, the external economic realm continued to be supportive although it started to tighten financially. Yet, it became less supportive, obviously. All these developments affected the Turkish economy negatively by creating economic hurdles which paved the way to insufficiently low lira electricity prices against the dollar-linked costs (see Chapter 6.2.1).

To sum up, in spite of negative changes in the global finance structure, they did not make strong preventive effects on the course of the liberalisation process; thus, it is safe to argue that external economic factors made less supportive effect in general (see Table 6.2). During the stagnation period (2016-2020), global finance structure became more a tightened one in which the range of options open to the developing countries narrowed. However, during this period, international financial institutions sustained their supportive attitude by both promoting further liberalisation and providing necessary loans. In addition

to Turkey's traditional creditors, new Asia-oriented international financial institutions started to support the projects in Turkey. On the other hand, global economic circumstances tightened starting from 2015, and particularly affecting Turkey after 2017. The less energy foreign direct investment inflow and raising interest rates were two repercussions of the tightening; yet, they continued to present a supportive attribute in terms of electricity market liberalisation, as examples showed. They remained supportive because, first, despite a considerable decrease, the FDI inflow still continued at helpful levels compared to its previous levels; second, the raising interest rates at global markets did not have a direct effect on liberalisation. In other words, deterioration in the external economic factors made an indirect effect on the electricity sector through damaging the Turkish economy, and thus creating repercussions on the electricity sector.

Table 6.2 External Economic Factors during Stagnation Phase

| Main Factor                          | Impact     |
|--------------------------------------|------------|
| International Financial Institutions | Supportive |
| Tightening External Economic Realm   | Supportive |

### 6.1.2: External Political Factors

The chief external political factors affecting the Turkish electricity market liberalisation process during the stagnation phase were identical with those of the previous phase; namely, the effects of international organisations, and the Turkey-EU relations. No significant change which has potential to affect the electricity restructuring in Turkey took place regarding the external political factors. That is to say, this element of the independent variable did not change as well as the external economic factors. The country's relationships with the international organisations and the EU, served as an indicator of its political prestige in the eyes of investors, especially for those from the western world to which Turkey attached high importance for the reasons mentioned at the parts about external economic factors. For this reason, similar to the previous phase,



their effects on Turkey were encouraging and supportive during the stagnation period too.

The main reason behind this continuity lies at the unchanging attribute of the global knowledge structure in this issue area. The global knowledge structure, since the 1980s, has prioritised neoliberal prescriptions throughout the world and these prescriptions gained an increasingly more legitimate and superior role in the public opinion, bureaucratic decision making, and sectoral policies, such as electricity. Therefore, the range of legitimate and acceptable options available at the hands of the Turkish governments regarding the electricity restructuring, did not change during the stagnation period. However, the external pressure (or insistence) for further reform in the electricity sector became less since the country has already reached at a certain degree of market maturity at the end of the introduction phase (2001-2015).

### ***Effects of International Organisations***

The first external political factor, the effects of international organisations, sustained its supportive character throughout the stagnation period, as it was the same at the introduction phase. However, dissimilarly, this supportive and encouraging character made only a vague effect on Turkey. The main reason for this was the non-hierarchical regime complexity in the global power structure in the field of energy (see Chapter 3.2). The idea of regime complexity corresponds to a set of overlapping and sometimes even contradictory regimes that share a common focus.<sup>613</sup> Yet, the regime complexity notion is not peculiar to energy; the literature discusses regime complexity in a number of other fields, ranging from the climate change to water management, cyber security, and refugees. Regarding the global power structure of energy, the problem is that there are many overlapping and parallel institutions dealing with the same issues, and the

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<sup>613</sup> Karen J. Alter and Kal Raustiala, "The Rise of International Regime Complexity", *Annual Review of Law and Social Science*, Vol. 14 (2018), pg. 330.

energy structure is also wounded by a disarray of universally accepted global international organisations, unlike the other various issue-areas of the international political economy.

This also weakens the effect of 'energy structure', and of the organising principle in the electricity industry from a structural power point of view. That is to say, for example, an international money transaction is strictly inspected by a variety of international organisations and there are globally accepted rules for handling international payments and banking operations. Similarly, how an export or import operation should be realised depends upon an established set of rules and norms, and there are international courts and dispute settlement mechanisms, when parties face with problems. Similar standards are existent for internationally traded energy commodities such as coal and oil, but when it comes to electricity or electricity supply infrastructure, non-existence of such binding standards weakens the basis which the global energy power structure depends upon. Therefore, it is not to say that the energy structure does not exist, but it is rather a loose framework for how things shall be done (see Chapter 3.2).

What different international organisations dealing with the energy issues at the global scale have in common rarely go beyond a few general ideas such as abolishing subsidies, urging countries to prioritise renewable energy resources, emphasising improving the energy efficiency, or highlighting the need to fight with the energy poverty in the poorer regions of the world. Within this loose framework, there are no directive regulations for the state actors which have sovereignty in the international law, as a main pillar of the current international state system. In addition to the looseness of the framework in which global energy structure operates, the existence of numerous international energy institutions brought a non-hierarchical structure, alongside a cacophony in international energy policy coordination. Global institution-building in energy is hampered by the dispersion of national interests and power across sub-sectors

and value chains, and by the complexity and multidimensionality of energy issues.<sup>614</sup> The political economic sensitivities regarding energy made the nation states reluctant to cede control over their energy policies to international organisations. This created a kind of “paradox of sovereignty”, states have less independence over their energy policies but, still remain largely unwilling to act jointly.<sup>615</sup>

Yet, this non-hierarchical and cacophonous structure did not curb the positive effects of international regimes mentioned earlier (see Chapter 5.1.2). The international energy institutions continued to provide the states with platforms for information and experience sharing to decrease their transaction costs. Functions such as the dissemination of information, best practices, technology and capital relevant to energy that states often delegate to international organisations were still maintained. In all these functions maintained by the international organisations, the global knowledge structure was intrinsic to which information and know-how was communicated, as Strange claimed. The problem was plenitude of international energy organisations hindering them from going beyond information sharing. Most of these organisations have no enforcement mechanisms with material sanctions. Nonetheless, they can still exert influence through norm diffusion and management approaches.<sup>616</sup> However, there are problems about defining norms as well.

According to Victor and Yueh, “There is no shortage of institutions in today’s energy markets; what is missing, however, is a practical strategy for setting

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<sup>614</sup> Ibid., pg. 33

<sup>615</sup> Francis McGowan, “International regimes for energy: Finding the right level for policy”, Ivan Scrase and Gordon MacKerron (eds.), *Energy for the future: A new agenda*, Basingstroke, Palgrave, 2009, pg. 21.

<sup>616</sup> Sylvia I.Karlsson-Vinkhuyzen, “The UN, Energy and the Sustainable Development Goals”, Thijs Van de Graaf et al (eds.), *The Palgrave Handbook of the International Political Economy of Energy*, London, Macmillan Publishers, 2016, pg. 116.

effective norms to govern the global energy economy”.<sup>617</sup> This approach, indeed, exactly corresponds to what Strange calls “energy structure”. Because there is not an established set of governing rules, energy structure is hardly a structure in the way the primary structures are. Hence, neoliberal structuralisation of electricity sector is something about finance and knowledge structures as much as, perhaps even more than, the energy structure. For the same reason, for countries, the energy structure is a framework for the adaptation to the current organising principle of the energy business.

The information sharing is relatively much more valuable throughout its early phases for triggering a restructuring programme. Nonetheless, its contribution becomes relatively less vital for an already significantly liberalised market having a certain degree of maturity, like that of Turkey. Therefore, the effects of international energy institutions on Turkey weakened during the stagnation period due to lack of a hierarchical and disciplining energy power structure. This also shows that, in the absence of a disciplining edge, Turkey loses a great portion of its motivation for further liberalisation. This situation proves that both electricity liberalisation is a foreign-inspired policy prescription and that the global energy structure is a weak structure in comparison to the other power structures. If there had been a strong energy power structure, countries would have been directed structurally to a certain end in a standard way, as they are directed through structural adjustment programmes within the field of global finance structure. However, this is not to say that there are not any seeds of an energy power structure; particularly environmental standards are pushing for the emergence of a global energy structure hard.

After Turkey considerably liberalised its electricity market, the international organisations had fewer lessons to advise to Turkey. Furthermore, during the

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<sup>617</sup> David G. Victor and Linda Yueh, “The New Energy Order: Managing Insecurities in the Twenty-first Century”, *Foreign Affairs*, Vol. 89, No. 1, pg. 67.

liberalisation process, Turkey has also learnt much by doing, and even came to a point where the Turkish authorities were able to serve to the other countries as advisors on how to restructure their own electricity sectors. This learning has taken place around the framework of social learning within the state and created a group of Turkish nationals at different positions at bureaucracy and private sector.<sup>618</sup> Especially EPIAŞ was an important asset for Turkey to present an example for its neighbourhood, not only in terms of selling technical products such as the software upon which the entire market operations are made, but also in terms of sharing its experience with the neighbour governments to create business opportunities for the Turkish investors abroad.<sup>619</sup>

Within this framework, EPIAŞ and Pakistan authorities negotiated and signed a memorandum of understanding about exporting EPIAŞ's software which was produced nationally and used to run the electricity market operations to Pakistan.<sup>620</sup> Similar negotiations were made with the Georgian electricity operator, as well.<sup>621</sup> Furthermore, thanks to the obtained experience in electricity liberalisation, many Turkish officials took place in various international bodies. For example, Yusuf Günay, Fatih Dönmez, Alparslan Bayraktar, and Ahmet Çağrı Çiçek served as chairman and presidium member for Energy Regulators Regional Association (ERRA), starting from 2007.<sup>622</sup>

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<sup>618</sup> Hall, "Policy Paradigms...", pp. 288-289.

<sup>619</sup> An anonymous high-rank EPIAŞ official, Ankara, 2020, interview.

<sup>620</sup> Central Power Purchasing Agency, *Visit of IT and SMD Teams to EPIAŞ*, Central Power Purchasing Agency, May 28, 2018, <http://www.cppa.gov.pk/Home/NewsDetail/29>; EPIAŞ, *EPIAŞ signed a MoU with Pakistan Energy Market Operator Company (CPPA-G)*, EPIAŞ, August 1, 2017, <https://www.epias.com.tr/en/announcements/corporate/collaboration-between-the-pakistan-market-operator-cppa-g-and-epias/>.

<sup>621</sup> *Georgian Market Operator ESCO Visited EPIAŞ*, EPIAŞ, October 19, 2018, <https://www.epias.com.tr/en/announcements/georgian-market-operator-esco-visited-epias/>; *Ministry of Economy of Georgia Visited EPIAŞ*, EPIAŞ, November 21, 2018, <https://www.epias.com.tr/en/announcements/ministry-of-economy-of-georgia-visited-epias/>.

<sup>622</sup> Energy Regulators Regional Association, *Presidium*, Energy Regulators Regional Association, October 17, 2020, <https://erranet.org/about-us/organisation/presidium/>.

These contributed Turkey's image and visibility in foreign relations. Still, it is safe to argue that in spite of non-hierarchical regime complexity in the field of energy, the international organisations maintained their supportive effects on the Turkish electricity liberalisation.

### ***Turkey-EU Relations***

The second external political factor, Turkey-EU relations, was positive as well, particularly thanks to the continuing energy co-operation. During the introduction period, the EU's distinctive effect was keeping Turkey on the track. During the stagnation period, the persistence of energy co-operation, significantly contributed to Turkey's liberalisation efforts by keeping the country on the map for investors by serving as an anchor assuring a certain level of guarantee for free market practices. This point was stated at various progress reports often. In 2016 report, it was positively recorded that TEİAŞ became an observer member of ENTSO-E (European Network of Transmission System Operators for Electricity), and that Turkey's efforts for more electricity interconnection lines continued.<sup>623</sup> Newly issued implementing legislations in Turkey were regarded in line with the Third Energy Package, but cross-subsidies between regions (price equalisation scheme) were deemed negative. The start of operations in EPIAŞ was accepted as a huge step. Turkey was also considered at a good level in terms of trans-European electricity networks.<sup>624</sup> In 2017, no report was prepared by the Union, as an indicator of deteriorating relations.

In the 2018 report, it was openly stated that Turkey and the EU developed their co-operation in a number of fields, including energy.<sup>625</sup> Government-controlled

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<sup>623</sup> European Commission, *Turkey Progress Report*, 2016, pg. 54.

<sup>624</sup> *Ibid.*, pg. 61.

<sup>625</sup> European Commission, *Turkey Progress Report*, 2018, pg. 3.

price structure continued as an unfortunate development. Generally speaking, the 2018 report regarded Turkey at a moderately prepared level in terms of energy chapter, and did not mention from much advancement regarding the electricity liberalisation. The 2019 report, by indicating the regression from the achieved level of liberalisation, stated that Turkey was only partly prepared in the energy chapter. Yet, it also recognised that Turkey achieved a lot in terms of energy supply security, renewable energy, and energy efficiency.<sup>626</sup> It also emphasised the problems in the price mechanism in electricity.

Although the general course of the political relationships between Turkey and the EU was not related to the liberalisation process directly, it was important as an element of foreign political agenda. Despite the existence of some unfavourable developments from time to time, the bilateral relationships were carefully kept at a certain level by both of the parties always. Most of the problems belonged to the non-energy areas such as Syrian refugees, freedoms in Turkey, and the other political issues but, they still affected the relations. The EU sustained its harsh criticism about various issues, and this created publicised diplomatic crises from time to time. These crises and other negative developments damaged Turkey's image in the eyes of global investors, and even caused some limited and temporary fluctuations in the value of lira, parallel to political fluctuations.

Still, the fluctuating course of political relations did not make a considerable negative effect on the Turkish electricity market liberalisation. Despite unstable political relations, energy relations provided the parties with a basis for closer co-operation. Underlying this, there was compartmentalisation approach of the both sides; "positive agenda" was the best proof for this. Even the eastern Mediterranean crisis was kept at a certain degree with the compromises and careful statements of the relevant parties. The Turkish governments' desire to

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<sup>626</sup> Ibid., pg. 90.

exploit energy issues as a leverage against the EU members were influential in this situation as well.<sup>627</sup> Hence, continuing energy co-operation between Turkey and the EU served as an encouraging factor for further liberalisation in the Turkish electricity market. This was because the EU membership process was one of the main motivations thanks to which the Turkish electricity liberalisation was legitimised and kept alive. The Turkish public opinion maintained a majority for the EU membership in this period, as a lucrative domestic political benefit, for the Turkish governments (see Figure 5.4). A recent study showed that a clear majority of the Turkish citizens support the EU membership still.<sup>628</sup> The political commitment at the Turkish side about full membership to the EU, urged the Turkish bureaucracy to adapt to the regulations and policies to those of the EU, as interviewees approved, in the previous chapter (see Chapter 5.1.2).

Furthermore, apart from political relations and Turkey's place in the western world, the global discursive superiorities of both neoliberal reforms and electricity liberalisation continued in a way to encourage Turkey for more liberalisation in the sector; concrete examples reinforce this argument. Regarding the future of Turkey-EU relations, New Green Deal of the EU can be another influential factor for Turkey to adapt. The New Green Deal includes no net emission of greenhouse gases by 2050, decoupling economic growth from resource use, and decarbonising the energy sector. In order to adapt to these goals, Turkey will need a more comprehensive utilisation and better orchestration of its untapped renewable energy resources in a foreseeable future. Therefore, the country may face with an increasing share of renewable energy plants which have guarantee of purchase assured with the aim of attracting the investors to invest in these areas.

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<sup>627</sup> Pınar İpek, "The Role of Energy Security in Turkish Foreign Policy (2004–2016)", Pınar Gözen Ercan (ed), *Turkish Foreign Policy: International Relations, Legality, and Global Reach*, Cham, Palgrave Macmillan, 2017, pg. 177.

<sup>628</sup> Mustafa Aydın et al, *Kantitatif Araştırma Raporu: Türkiye Siyasal Sosyal Eğilimler Araştırması 2020*, İstanbul, Kadir Has Üniversitesi Türkiye Çalışmaları Grubu, Akademetre ve Global Akademi, 07 Ocak 2021, pg. 83.



Briefly, the external political factors continued urging Turkey towards a fully-liberalised electricity market structure (see Table 6.3). The international energy organisations maintained their supportive character, despite their lack of enforcement effect borne by the non-hierarchical regime complexity. Besides, Turkey's relationships with the EU contributed not only to the country image, but also to the liberalisation efforts positively. In spite of some fluctuations in the general course of political relations, both of the sides managed to tackle the problems through focusing the areas with high degree of mutual interests, such as energy which were treated within the framework of positive agenda. The continuing energy co-operation in between worked as a thorough basis for reforms in the Turkish electricity market. In other words, continuing Turkey-Europe energy co-operation supported the reforms at the domestic market.

Table 6.3 External Political Factors during Stagnation Phase

| Main Factor                 | Impact     |
|-----------------------------|------------|
| International Organisations | Supportive |
| Turkey-EU Relations         | Supportive |

## 6.2: Internal Realm

The examination of the internal realm addresses the question what caused stagnation despite continuously supportive independent variable (global power structures); the answer is changing character of the intervening variable (package of internal factors). The internal realm, unlike the external one, was in an unfavourable fashion for the advancement of the Turkish electricity liberalisation. The answer for the question why the liberalisation process decelerated and even regressed, despite certain level of achieved maturity, lies at the internal realm. At the previous phase, internal factors enabled governments to advance the foreign-inspired liberalisation policy but, at the stagnation phase, it was the domestic problems which hindered the restructuring process to advance further, despite continuing supportive factors at the external economic and political realms. Basically, it can be said that, in the

absence of an acute need for foreign finance, effects of the global power structures became insufficient to push the liberalisation process forward, since they lost their disciplining edge over the domestic policy preferences of Turkey to a great extent. This confirms that Turkey has some degree of bargaining power in the global power structures, although it has not the capacity to shape them altogether, as Tayfur rightly points out that country's ultimate positions are a function of their structural and bargaining power.<sup>629</sup> In the previous part about external realm, effects of the global power structures (independent variable) on Turkey's domestic energy policy preferences (electricity liberalisation) have been analysed through the concept of structural power. Here in this part, internal economic and political factors (intervening variable) will be analysed through other concepts such as the public choice theory which will be incorporated to the eclectic approach of Susan Strange. Thus, diverting and distorting effects of internal realm will be integrated with the structural analysis of the external realm.

### **6.2.1: Internal Economic Factors**

The internal economic factors have evidently deteriorated starting from 2016, and this had repercussions on the reform period by creating an inability risk for the private sector to meet its liabilities. Two main internal economic factors have been influential in creating problems for the electricity sector; the first is emergence of excess supply, and the second is deteriorating internal economic balances. Here, what excess supply means should be clarified briefly. Excess of something is not an absolute measure; basically, it means a mismatch between supply and demand. Therefore, in any case of excess supply, either supply has been planned wrong and is too much than the demand, or the demand has been estimated wrong and increases less than anticipated in the first place. In Turkey's case, both were true.

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<sup>629</sup> M.Fatih Tayfur, "Susan Strange Goes to the Eastern Mediterranean", *Perceptions*, Vol. 8 (2003), pg. 4.

### ***Emergence of Excess Supply***

Behind the first internal economic factor, emergence of excess supply, there was decrease in the electricity demand growth mainly caused by deindustrialisation and general economic slowdown in Turkey, and was directly correlated with the country's economic policies. Apart from the debates whether this deindustrialisation was a premature one or not, it is safe to argue that Turkey considerably deindustrialised. The share of industry in Turkey's GDP and breakdown of the electricity consumption supports this argument (see Figure 6.2, Figure 6.3).

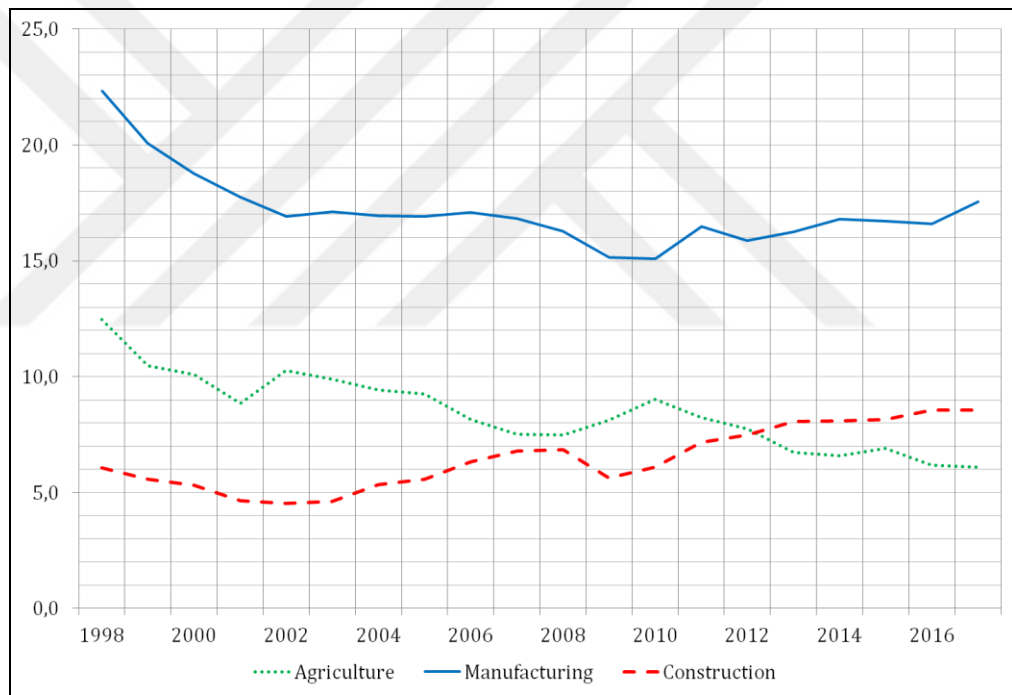


Figure 6.2 Selected Sectors in Turkey's GDP, as %, 1998-2017 (Source: TÜİK)

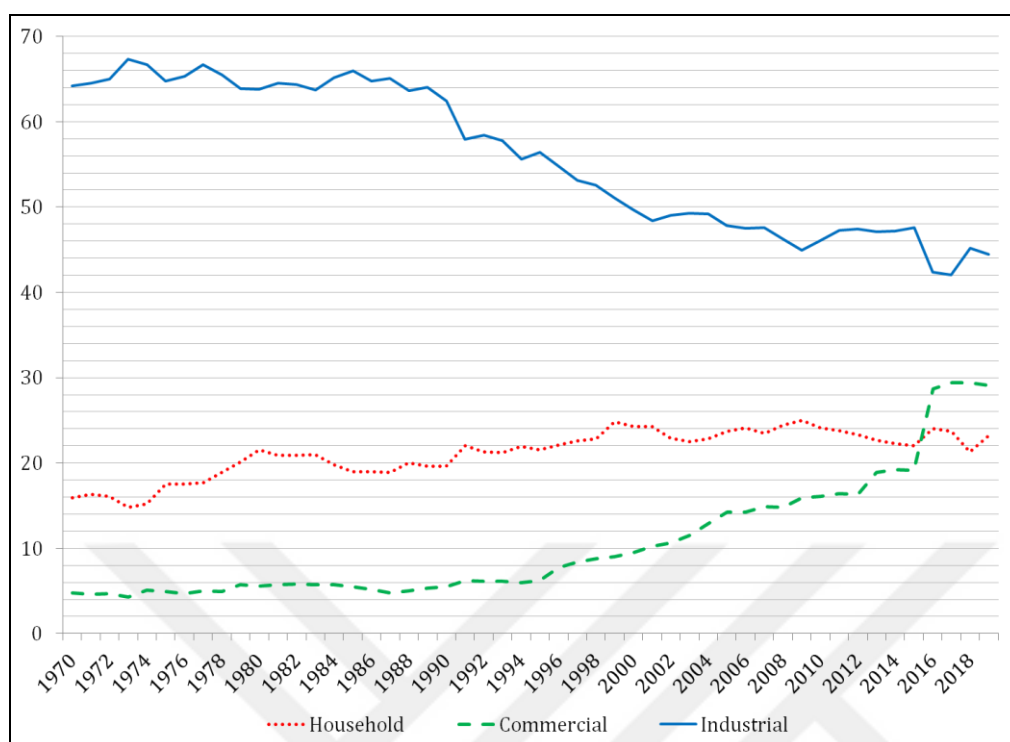


Figure 6.3 Electricity Demand Structure in Turkey, as % of Total, 1998-2019  
(Source: TÜİK)

In addition to decrease in the demand growth, the optimistic estimates contributed much to the problem as well. It can even be suggested that these optimistic estimates created a bigger trouble even than decreasing demand growth itself by preventing well orchestration of the allocated portion of the country's scarce resources to the sector. A variety of stakeholders of the Turkish electricity sector, including the sole transmission system operator, were not able to anticipate the coming downfall in the demand growth properly (see Table 6.4). The estimates made by TEİAŞ are particularly important, because changes in every aspect of the electricity market directly affect the issues which TEİAŞ deals with. Nevertheless, it is necessary to note that almost all other stakeholders of the sector, including major private consulting firms, anticipated the demand growth wrong. The anti-neoliberal opposition movements exploited this negative situation against electricity restructuring on the grounds that the reform failed to utilise the better orchestration of the country's scarce resources

through market mechanisms as it was claimed in the first place.<sup>630</sup> The electricity demand growth expectations of the development plans have been much higher than the real growth almost always after the year 2000 (see Figure 6.4).

Table 6.4 Selected Estimates of TEİAŞ and Realised Demand Growths<sup>631</sup> (Source: TEİAŞ)

| Estimate Period | Annual Demand Growth |                 |
|-----------------|----------------------|-----------------|
|                 | <i>Estimated</i>     | <i>Realised</i> |
| 2006-2015       | 7,3%                 | 5,8%,           |
| 2007-2016       | 7,15%                | 5,2%            |
| 2008-2017       | 7,15%                | 5,5%            |
| 2009-2018       | 7%                   | 6,3%            |
| 2010-2018       | 7%                   | 5,6%            |
| 2011-2018       | 7%                   | 4,6%            |
| 2012-2018       | 7%                   | 4,3%            |
| 2013-2017       | 5,6%                 | 5,1%            |
| 2014-2018       | 5,3%                 | 4,6%            |
| 2015-2018       | 5,7%                 | 4,8%            |
| 2016-2018       | 4,6%                 | 4,5%            |
| 2017-2018       | 3,2%                 | 2,5%            |
| 2018-2022       | 4,5%                 | -               |

<sup>630</sup> “EMO: Elektrik Piyasası Şiştı”, Union of Chambers of Turkish Engineers and Architects, January 15, 2018, <https://www.tmmob.org.tr/icerik/emo-elektrik-piyasasi-sisti>;

<sup>631</sup> Data was compiled from the various generation capacity projections of TEİAŞ.

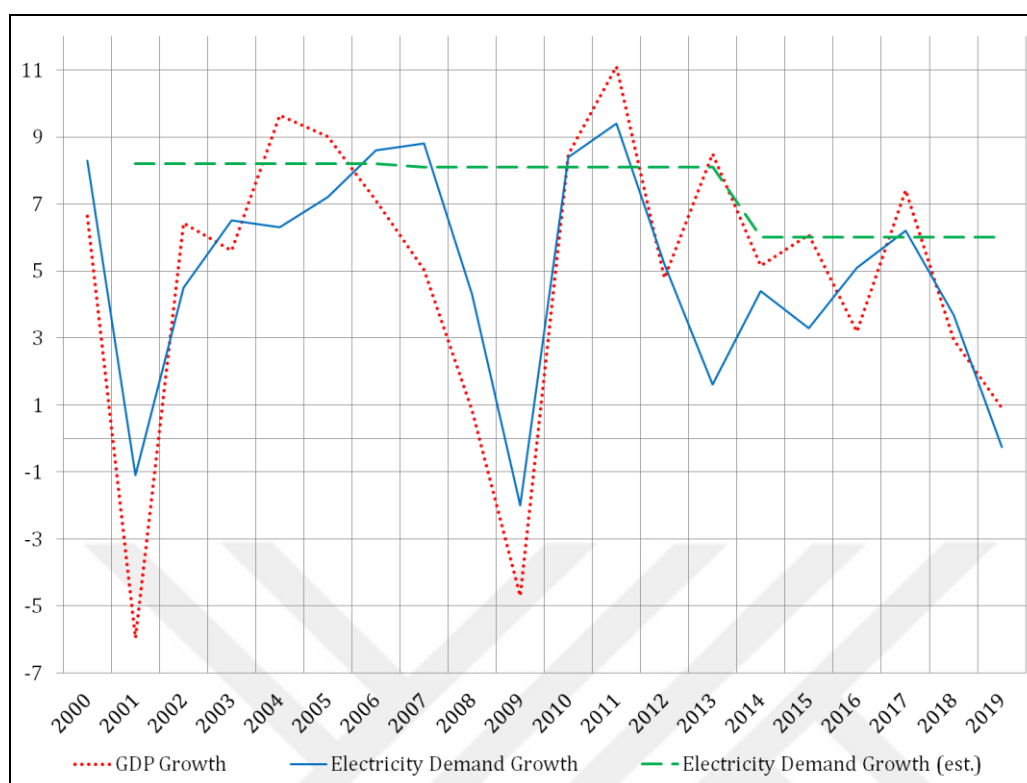


Figure 6.4 GDP Growth and Electricity Demand Growth (Realised and Estimated), as %, 2000-18<sup>632</sup> (Source: *MoD, TEÍAŞ*)

At the same time, the resemblance between the GDP growth and realised electricity demand growth curves began to dissociate, particularly around 2013 overtly, pointing out to a degree of risk of decoupling between economic growth and electricity consumption. Premature deindustrialisation debates gain even more significance at this point again. Nonetheless, from a reductionist point of view, dissociation between the GDP growth and electricity demand increase in the year 2013 can be correlated with the internal economic developments in the country. In the same year, the share of commercial consumers in the total demand increased 16% only in one year and reached 19%; and after 2016 the same ratio exceeded 30% even (see Figure 6.3). Although the temporal

<sup>632</sup> Estimates belong to the development plans.

coincidence between two variables seems meaningful, the causal correlation between them needs further elaboration in different studies.

Foreseeing this dissociation was not easy of course; it required decision-makers to be better-informed about the relationship between means and ends, and a better administrative co-ordination among different agencies of the state. Lastly on this issue, it is necessary to note that there was not a consensus among interviewees whether or not these optimistic estimates were deliberately exploited in order to attract more foreign investment to the sector; some claimed it was used while some other rejecting this idea.<sup>633</sup>

After the year 2000, the installed power increased for 3,12 times, while the consumption increasing for 2,31 times until 2020.<sup>634</sup> Because different plant types have different capacity factors, comparing installed power with consumption cannot be a thorough measure; yet, for the sake of simplicity, this can be taken as an indicator for what created the excess supply in the market roughly.<sup>635</sup> Resultantly, over investment in the sector pulled down the theoretical average utility factor of the generation plants in Turkey sharply in 2013, and the trend continued. The theoretical utility factor is not a sufficient indicator on its own for a variety of reasons such as, the structure of peak load, and changing composition of the newly added installed power, like the weight of renewables which makes it harder to compare different plant types. Also, existence of reserve capacity does not guarantee an uninterrupted supply of electricity, due to restraints in the transmission and distribution infrastructures. Yet, the change of utility factor and reserve capacity is still able to reflect a general picture about the sector in a meaningful and coherent way. Between

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<sup>633</sup> Various interviewees, Ankara, 2019-2020, interview.

<sup>634</sup> Data was compiled from the TEİAŞ database.

<sup>635</sup> The capacity factor is the ratio of an actual electrical energy output over a given period of time to the maximum possible electrical energy output over that period.

2008 and 2009, the theoretical utility factor fell to 66% from 73%, and between 2012 and 2013, fell further to 59,5% from 67,4% (see Figure 6.5).<sup>636</sup> Parallel to this, the reserve capacity in electricity generation climbed to over 40%, whereas the economically optimum levels were around 15% (see Figure 6.5).<sup>637</sup> Similar to, but more important than, the trend in theoretical utility factor, weak annual growth rates in the hourly peak load point out to the same end: excess supply. In spite of continuing consumption growth, the pace of increase diminished as the problems of the Turkish economy got worse. The linear fit of the annual growth rates demonstrate the weakening growth of hourly peak load increase (see Figure 6.6).

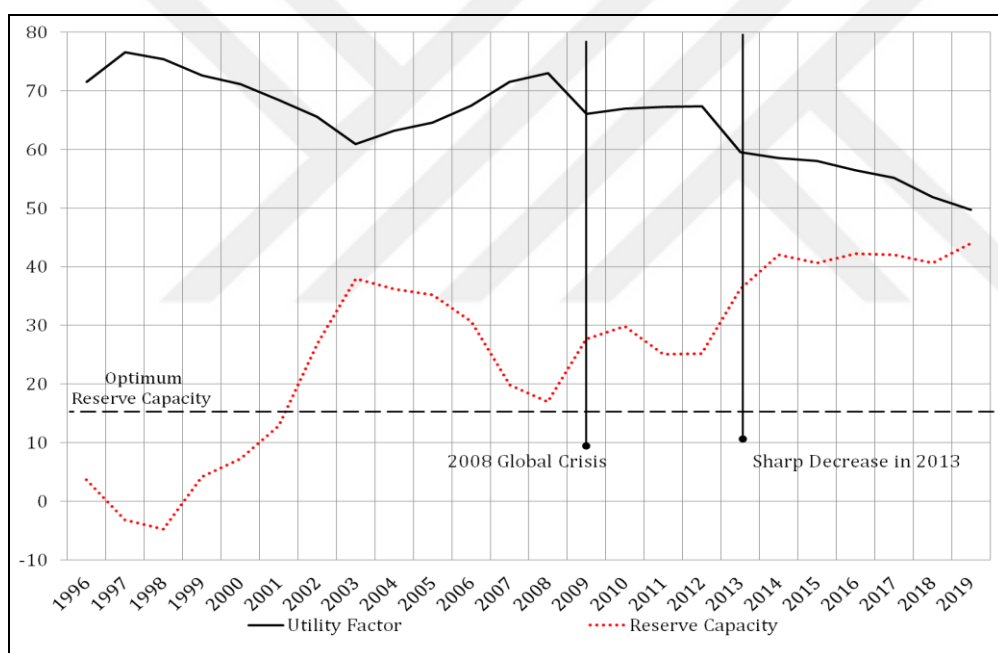


Figure 6.5 Theoretical Utility Factor and Reserve Capacity in Turkey, as %, 1996-2019<sup>638</sup> (Source: TEİAŞ)

<sup>636</sup> Data was collected from the TEİAŞ database.

<sup>637</sup> This economically optimum reserve capacity may change according to structure of the installed power. If penetration of the renewable sources is higher, a higher reserve capacity may be needed.

<sup>638</sup> Utility factor is theoretically assumed national average rate. Reserve Capacity is (Firm Generation Capacity / Gross Demand - 1) x 100.



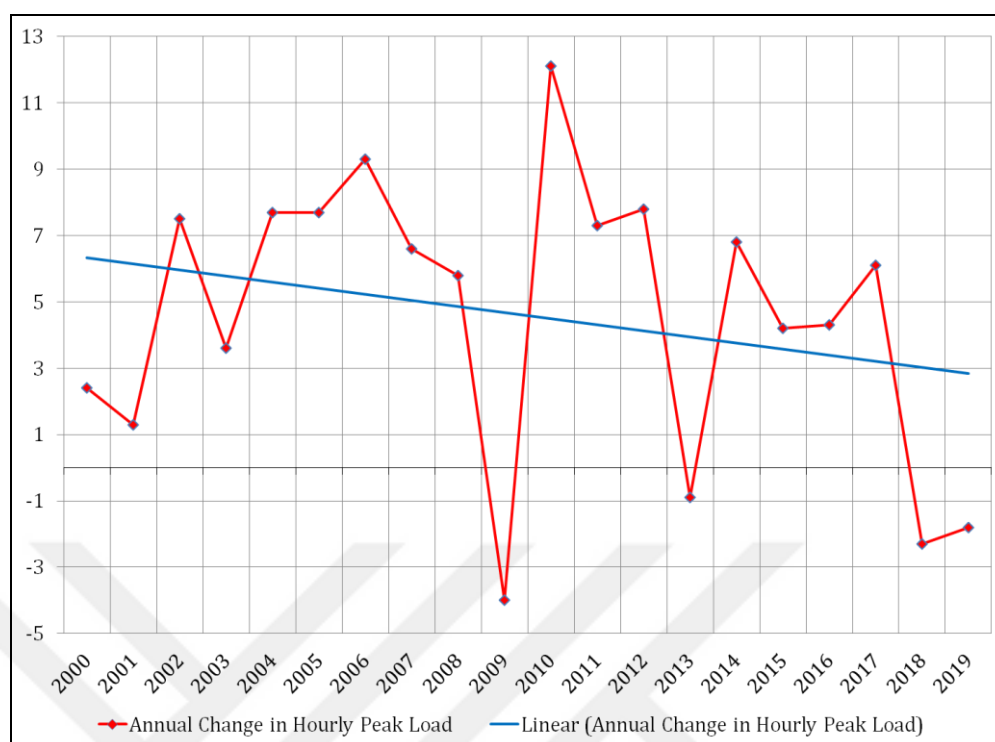


Figure 6.6 Annual Changes in Hourly Peak Load, as %, 2000-19 (Source: TEİAŞ)

The optimistic estimates, on the one hand, increased the capital inflow to the ostensibly feasible projects by promising an illusionary high-demand high-profit future; but, on the other hand, paved the way to widespread sectoral troubles by creating an excess supply in a buyer's market with low electricity prices. Thus, when the gap between real and expected prices started to widen, all eyes turned to the public authorities to re-introduce incentives, regardless of how market-distorting they were for the future of electricity liberalisation endeavours. For example, between 2012 and 2021, the nominal Turkish Lira electricity prices increased 90%, while the consumer price index increased 149,93% (see Figure 6.7).<sup>639</sup> In other words, electricity prices in Turkish lira declined 59,93% in real terms at GÖP (day-ahead electricity market at EPIAŞ). The US dollar prices

<sup>639</sup> The electricity price data was compiled from TEİAŞ database, and the consumer price index data was compiled from TÜİK database.

declined almost 50% during the same period, and TL and US dollar electricity prices decoupled negatively.

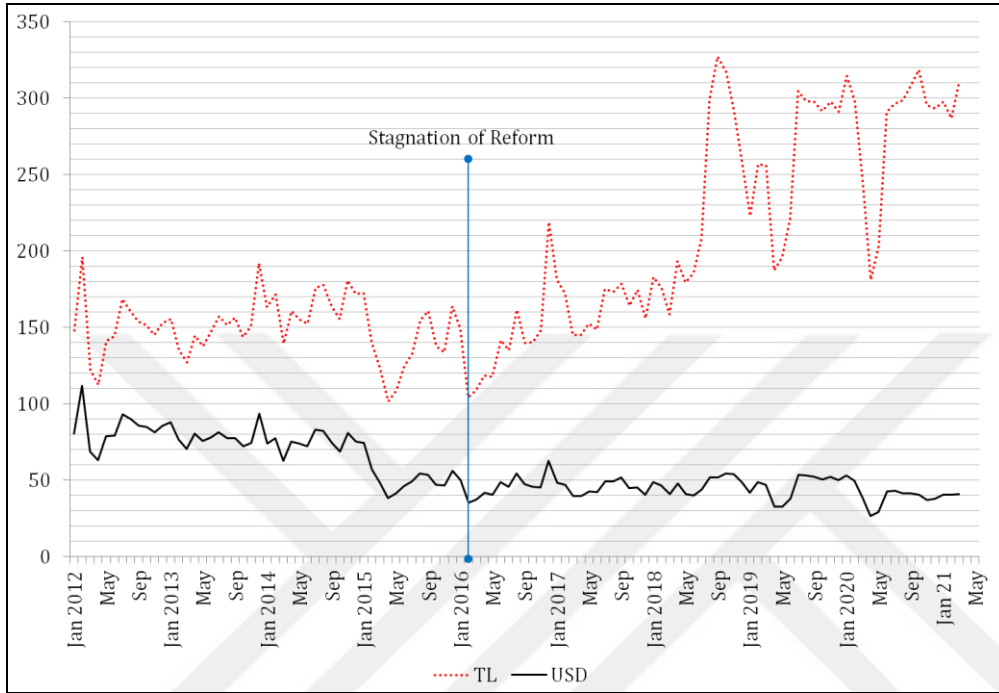


Figure 6.7 Average TL and USD Monthly Electricity Prices at GÖP, as MWh, 2012-21 (Source: *EPİAŞ*)

In the plummeting prices, not only shrinking demand growth and over investment, but also character of the new installed power was influential. Especially after 2010, increasingly greater amounts of renewable energy resources were added to the Turkish electricity mix. These plants made a lowering effect on the electricity prices, parallel to the global experiences. All interviewees converged on the issue that renewable energy resources such as wind and solar caused a decrease in the electricity prices.<sup>640</sup> A respondent claimed that the total capacity of renewable energy plants increased too rapidly, and the state itself behaved like a private actor at the market, instead of

<sup>640</sup> Kenan Sitti, Ankara, October 2019, interview; all other respondents agreed this unanimously.

regulating this uncontrolled increase.<sup>641</sup> The electricity generation plants using renewable energy resources, generally speaking, offered lower prices at the EPIAŞ system than the plants using conventional resources, thanks to their lower operating costs. Thus, as the total installed power of these plants increased, the price of the last accepted bid (the highest accepted price) decreased. Nevertheless, the electricity prices started to ‘normalise’ towards the end of 2019, as the general outlook of the Turkish economy stabilised.

### ***Deteriorating Internal Economic Conditions***

The second internal economic factor was deteriorating internal economic conditions which were also creating extra hurdles for all private electricity investors, in addition to the already continuing sectoral problems. The depreciation of lira and economic slowdown were among those which were created by Turkey’s structural economic problems and sharpened by the domestic political turmoil. Despite the fact that the economic slowdown was an outcome of the country’s growth model, it became worse due to domestic political developments and tightening global finance structure; the former raised the instability risk in the country, and the latter raised the cost of money for the Turkish nationals. The changing global finance structure affected the already deteriorating internal economic conditions undeniably. The quantitative tightening policies of major central banks led to a less helpful environment in the global finance structure.

One of the nightmare scenarios for the Turkish electricity sector was depreciation in the value of Turkish lira. This was also an indicator of Turkey’s place in the global finance structure; it showed the degree global investors trust the future wellbeing of the Turkish economy. The value of lira was of vital importance for both domestic and international private electricity investors for two reasons. Firstly, while the costs of the sector were in the US dollar, the

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<sup>641</sup> Metin Başlı, Ankara, November 2019, interview.

revenues were in lira; and, secondly, the debt stock of the sector was mainly composed of the US dollars, not the Turkish lira. In other words, the private electricity investors undertook a considerable exchange rate risk not only in dealing with their operational expenditures (opex), but also in managing their huge debt stock springing from their capital expenditures (capex).

This mismatch between costs and revenues was especially a trouble for the thermal power plants since the fuels these plants used were imported over prices in dollar. When the Turkish lira depreciated faster than the generators were able to increase the prices at which they sell their electricity, they found one more problem at their hands. Similar concerns were raised about the privatised electricity distribution companies too. The electricity distribution privatisations cost \$13 billion to the private investors when the dollar was around 2 TL. Later, the Turkish lira depreciated until the dollar/lira exchange rate rose to 3 TL towards 2015 (see Figure 6.8). During this period, the electricity supply companies were not affected much, since they could maintain their business somehow until mid-2017. In other words, two among three restructured segments of the electricity sector, generation and distribution, had accumulated problems starting from 2015, while the supply segment was relatively in a slightly better position.

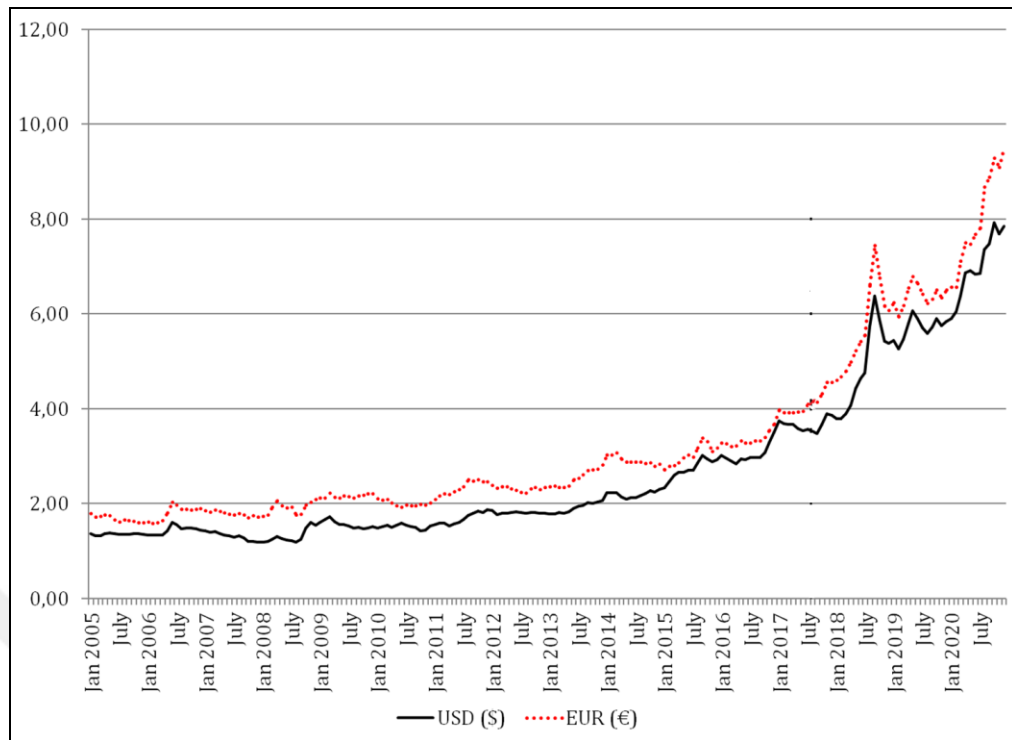


Figure 6.8 Nominal Monthly TL/USD and TL/Euro Exchange Rates, 2005-20  
(Source: TCMB)

The other significance of the exchange rate was the huge debt stock of the sector. This is particularly a useful indicator showing Turkey's place in the international power structures, particularly in the global finance structure. When liberalisation started, the value of lira was higher and more stable, thus, it was easier both to undertake financially huge ownership transfers from state to the private sector, and to undertake new investments. Later, financial sustainability and political stability risks appeared, and liberalisation stagnated, when the value of lira started to plummet. Being aware of exchange rate risk, why would investors borrow massively in foreign currencies? The answer lies in Turkey's place in the global finance structure.

As Susan Strange pointed out, the power to create credit, or controlling credit mechanisms, is a form of power, since it facilitates rapid growth and implies

enabling some to spend today and pay back in the future while preventing some others. Turkey, as a developing country, has only a limited capability for credit creation in its national currency. In this weakness, saving-investment gap was one of the most fundamental reasons, as mentioned earlier at Chapter 5. As basic economics teaches us, if demand is higher than supply, the price gets higher. The interest rates in the Turkish lira were considerably higher than those in the US dollar and Euro (see Figure 5.3). Hence, the investors preferred borrowing in foreign currencies by taking risk. When the global finance structure was operating smoothly, the investors had no problems but, as lira plummeted, financial sustainability risks started to realise.

As of mid-2018, the total debt stock of the private investors in the generation and distribution segments was roughly \$50 billion, according to international observers..<sup>642</sup> In this total, the \$43 billion belonged to generation, and \$7 billion to the distribution segments, as different sources confirmed.<sup>643</sup> Annual reimbursements of the sector was approximately \$6,9 billion, and of this amount, \$2,9 billion belonged to the resources and plants which had no guarantee of purchase.<sup>644</sup> Officials from the business associations representing the generation and distribution segments of the electricity industry confirmed these figures without giving more concrete or detailed information, during interviews.<sup>645</sup> This huge foreign currency debt created risks for financial sustainability even as early as mid-2015.<sup>646</sup> Due to large share of energy loans in

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<sup>642</sup> Ercan Ersoy and Aslı Kandemir, “Turkey Faces Ticking Bomb With Energy Loans of \$51 Billion”, *Bloomberg*, July 11, 2018, <https://www.bloomberg.com/news/articles/2018-07-11/turkey-faces-ticking-time-bomb-with-energy-loans-of-51-billion>; Bakatjan Sandalkhan, Serhat Bölükbaşı and Fatih Selçuk, *Sürdürülebilir Gelecek İçin Sürdürülebilir Enerji: Kısa ve Orta Vadeli Öneriler*, TÜSİAD, 2018, pg. 14.

<sup>643</sup> Ibid.

<sup>644</sup> Ibid.

<sup>645</sup> Oytun Alıcı, Ankara, November 2019, interview; Obahan Obaoglu, Ankara, November 2019, interview.

<sup>646</sup> Meve Erdil, “Dikkat! Elektrik tehlikesi”, *Hürriyet*, September 7, 2015, <http://www.hurriyet.com.tr/ekonomi/dikkat-elektrik-tehlikesi-30011693>.

the total loans given by the Turkish banking sector, a serious danger occurred for the banking sector too.

In addition to the credits provided by the Turkish banks, the private sector obtained loans from abroad. According to the Turkish Central Bank, at the end of 2018, the long term debt stock of the energy sector in this category was \$12,089 billion with its 5,58% share in total, while it was \$3,587 billion in 2006 with its 4,36% share.<sup>647</sup> In other words, the indebtedness of the energy sector increased more than the other sectors, even in an increasing level of general indebtedness in all areas of the Turkish economy. Regarding the composition of the debt, at the end of 2018, the dollar and euro had 55,8% and 42,4% shares respectively, in the long term credits, while 1,8% consisted of the other currencies (see Table 6.5).<sup>648</sup> Thus, when the value of Turkish lira depreciated, many Turkish companies dealing with electricity business sought for financial relief, through restructuring their debts or going public; some majors such as Enerjisa, Zorlu, Bereket, Akenerji, and Gama were among them.<sup>649</sup> As of April 2019, the debt stock of the Turkish energy sector to the banks was around \$38 billion, according to the Banks Association of Turkey. Due to the strategic importance of the sector, the Turkish government pressed banks to restructure these bad loans of the electricity sector, some media reports claimed.<sup>650</sup>

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<sup>647</sup> Data was compiled from TCMB database.

<sup>648</sup> Data was compiled from TCMB database.

<sup>649</sup> Nural Erkul, "Turkey's Enerjisa goes public", *Anadolu Agency*, January 29, 2018, <https://www.aa.com.tr/en/energy/electricity/turkeys-enerjisa-goes-public-/16605>; Nuran Erkul, "Turkey's Zorlu Energy seals \$330 million financing", *Anadolu Agency*, June 1, 2018, <https://www.aa.com.tr/en/energy/investments/turkeys-zorlu-energy-seals-330-million-financing/20322>; Kerim Karakaya, Ercan Ersoy and Aslı Kandemir, "Turkey's Bereket Is Said to Begin Sales to Pay \$4 Billion Debt", *Bloomberg*, July 5, 2018, <https://www.bloomberg.com/news/articles/2018-07-05/turkey-s-bereket-is-said-to-begin-sales-to-pay-4-billion-debt>; Kerim Karakaya and Ercan Ersoy, "Turkey's Gama Said in Talks to Restructure \$1Billion Debt", *Bloomberg*, May 29, 2018, <https://www.bloomberg.com/news/articles/2018-05-29/turkey-s-gama-is-said-in-talks-to-restructure-1-billion-of-debt>.

<sup>650</sup> Ebru Tuncay, Can Sezer and Jonathan Spicer, "Turkey presses banks to agree high-stakes bailout of bad energy loans", *Reuters*, May 13, 2019, <https://www.reuters.com/article/us-turkey->

Table 6.5 Shares of USD and Euro in Long-Term Loans and Average Interest Rates, 2018 (Source: TCMB)

| Currency | Share in Total | Fixed Interest Rate |                       | Variable Interest Rate |                |
|----------|----------------|---------------------|-----------------------|------------------------|----------------|
|          |                | Share               | Average Interest Rate | Share                  | Average Spread |
| USD (\$) | 55,8%          | 60,2%               | 3,4%                  | 39,8%                  | 3,4%           |
| Euro (€) | 42,4%          | 28,6%               | 2,9%                  | 71,4%                  | 2,1%           |

Lastly, in May 2019, the Turkish government decided to form an Energy Venture Capital Fund to include the electricity plants facing with huge financial problems, as another explicit proof of the increasing state intervention.<sup>651</sup> However, a high-rank energy bureaucrat stated that it would not be realised.<sup>652</sup> At the core of the problem, there is a radical shrinkage in profitability, and, the debt problem has also included a cash flow problem in it. Therefore what seems more probable and feasible is a debt restructuring, as many companies have already done.

In fact, borrowing foreign currencies created an advantage during the introduction period by enabling electricity investors in Turkey to benefit from lower interest rates in the US Dollar and Euro. Though, it then turned into a fatal weakness as the exchange rate risk realised. Between 2005 and 2015, lira depreciated 55% and 46% nominally in 10 years, against the US dollar and Euro respectively. However, after 2015, only in three years, the nominal depreciation reached to 45% in dollar, and 48% in Euro (see Figure 6.8). The real depreciation was also big; while the average CPI (consumer price index) based real effective exchange rate between 2003 and 2015 was 98,12, it fell to 88,90

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[economy-bailout-exclusive/exclusive-turkey-presses-banks-to-agree-high-stakes-bailout-of-bad-energy-loans-idUSKCN1SJ0BY](#).

<sup>651</sup> Nuran Erkul, "Turkey to form Energy Fund \$2B non-performing loans", *Anadolu Agency*, May 23, 2019, <https://www.aa.com.tr/en/energy/investments/turkey-to-form-energy-fund-for-2b-non-performing-loans-/25568>.

<sup>652</sup> Anonymous high-rank energy bureaucrat, Ankara, 2020, interview.



between 2016 and 2018 (see Figure 6.9). Behind the depreciation of the Turkish lira, structural effects were not absent as well; with the end of quantitative easing in the global finance structure, value of the US dollar started to rise against currencies of the developing countries, such as the Turkish lira. The effect of depreciation on the liberalisation process was so destructive that the new owners of privatised electricity distribution and generation companies expressed their concerns about inability to meet their future liabilities.<sup>653</sup> All interviewees verified this about their own segments.

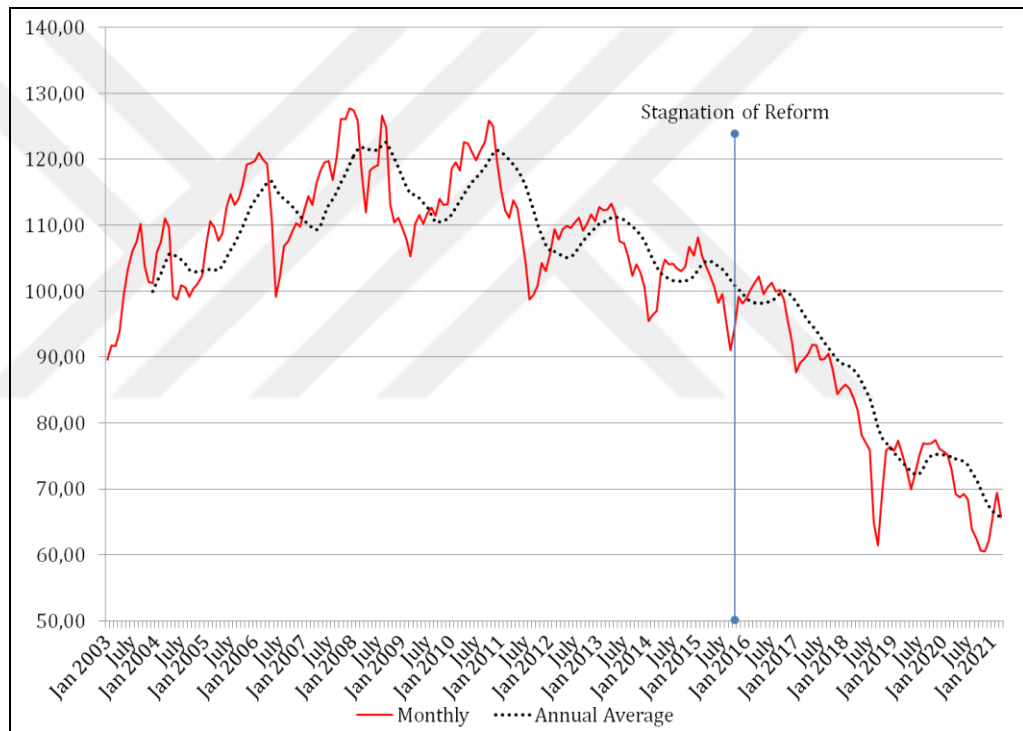


Figure 6.9 CPI Based Monthly and Annual Real Effective Exchange Rates, 2003-21 (Source: TCMB)

<sup>653</sup> "Kur artışının elektrik dağıtım şirketlerine bedeli ağır", *Hürriyet*, October 18, 2017, <http://www.hurriyet.com.tr/ekonomi/kur-artisinin-elektrik-dagitim-sirketlerine-bedeli-agir-40614574>.

Therefore, a comprehensive framework for buoying the private electricity investments was needed for generation, distribution and supply segments. Regarding the generation segment, a representative of the electricity generators in Turkey responded that main and the most pressing problems were financial sustainability and excess supply.<sup>654</sup> Both of these problems occurred, because the sector became over-crowded, as interviewees from different segments of the sector agreed. In this sense, the concept of ‘financial sustainability’ encapsulates what private investors prioritise. It was important particularly for thermal power plants which could not sell their electricity at pass-through prices due to merit order created by the low electricity prices at the day-ahead electricity market of EPIAŞ. This turned rapidly into a trouble which necessitated re-introduction of state intervention.

For this reason, a capacity market started to be discussed as early as mid-2015.<sup>655</sup> It was finally established on January 20, 2018.<sup>656</sup> The capacity market targeted keeping thermal power plants (especially natural gas) in the country by compensating a portion of their losses, thus preventing the investors to transport their plants to more profitable countries which offer guarantee of purchase. The designed mechanism could not prevent ‘plant drain’ to abroad altogether, and some of the plants were transported to the African countries such as Ghana, Mali, and Madagascar, where the investors were given fixed income guarantees in the US dollar.<sup>657</sup> Yet, it is true that the capacity market

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<sup>654</sup> Obahan Obaoğlu, Ankara, November 2019, interview.

<sup>655</sup> Dursun Yıldız, “Doğalgaz santralleri batsın mı?”, *Enerji Günlüğü*, July 22, 2015, <https://enerjigunlugu.net/icerik/14583/dogalgaz-santralleri-batsin-mi.html>.

<sup>656</sup> Resmî Gazete, January 20, 2018.

<sup>657</sup> For some media reports on the issue, see: Merve Erdil, “Afrika ve Asya’ya ikinci el santral”, *Hürriyet*, January 16, 2018, <http://www.hurriyet.com.tr/ekonomi/afrika-ve-asyaya-ikinci-el-santral-40712235>; “Aksa Gana’da elektrik üretimine başlıyor”, *Enerji Günlüğü*, March 3, 2016, <https://enerjigunlugu.net/icerik/17499/aksa-ganada-elektrik-uretimine-basliyor.html>; Mehmet Kara, Aksa, Manisa’daki doğalgaz santralini kapatıyor”, *Dünya*, November 14, 2018, <https://www.dunya.com/sektorler/enerji/aksa-manisadaki-dogalgaz-santralini-kapatiyor-haberi-432265>; “Aksa Enerji, yurt dışına doğalgaz santrali taşıyacak”, *Enerji Enstitüsü*, January 17, 2018, <http://enerjiinstitutusu.de/2018/01/17/aksa-enerji-grup-yurt-disina-dogalgaz-santrali-tasiyacak/>.

helped to keep some installed power in. A similar step was taken in 2016, and a certain portion of electricity generated by the local lignite plants was given guarantee of purchase by TETAŞ.<sup>658</sup> In the first year of implementation, the guaranteed price was above 65\$/MWh, it decreased to around 50\$/MWh in 2018. Incentivising coal plants, regardless of its origin country, was harshly criticised by the environmentalist circles.<sup>659</sup>

Nevertheless, renewable energy resources had failed in insulating themselves from the sectoral problems as well. When the electricity prices at EPIAŞ were satisfying, renewable energy resources investors did not need participating at Renewable Energy Support Mechanism (YEKDEM). However, when problems appeared at the horizon, the number of participating plants increased, because the support mechanism offered plants using renewable energy resources guarantee of purchase over the US dollar prices, and when the Turkish lira depreciated, these prices became more advantageous than free market prices in lira. For example, in 2013, installed power using renewable energy resources participating at the support mechanism was only a mere 534 MW, it jumped to 17.399 MW in 2017 (see Figure 6.10). Reflecting this change, the share of installed power at the support mechanism rose to 24,28% of the total installed power in Turkey, from its 1,14% level in 2011 (see Figure 6.11).

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<sup>658</sup> Resmî Gazete, August 9, 2016; for a media report on the issue, see: “Devlet yerli kömür elektriğini 185 TL/MWh’den alacak”, *Enerji Günlüğü*, August 9, 2016, <https://enerjigunlugu.net/icerik/19416/devlet-yerli-komur-elektrigini-185-tlmwhden-alacak.html>; PricewaterhouseCoopers, *Yerli Kömür Teşviki Üzerine Bir Değerlendirme*, PricewaterhouseCoopers, <https://www.pwc.com.tr/tr/sektorler/enerji-altyapi-madencilik/enerji-spotlights/yerli-komur-uretimi-uzerine-degerlendirme.html>.

<sup>659</sup> “Kömüre destek hem çevreyi hem cebimizi yakacak”, *World Wildlife Fund*, June 3, 2016, <http://www.wwf.org.tr/?5641>; Pelin Cengiz, “Yerli kömür masalı bitti, Türkiye ithal kömür cenneti oldu”, *Yeşil Gazete*, March 29, 2018, <https://yesilgazete.org/blog/2018/03/29/yerli-komur-masali-bitti-turkiye-ithal-komur-cenneti-oldu-pelin-cengiz/>; Sevil Acar, Lucy Kitson and Richard Bridle, *Türkiye’de Kömür ve Yenilenebilir Enerji Teşvikleri*, International Institute for Sustainable Development and Global Subsidies Initiative, March 2015.

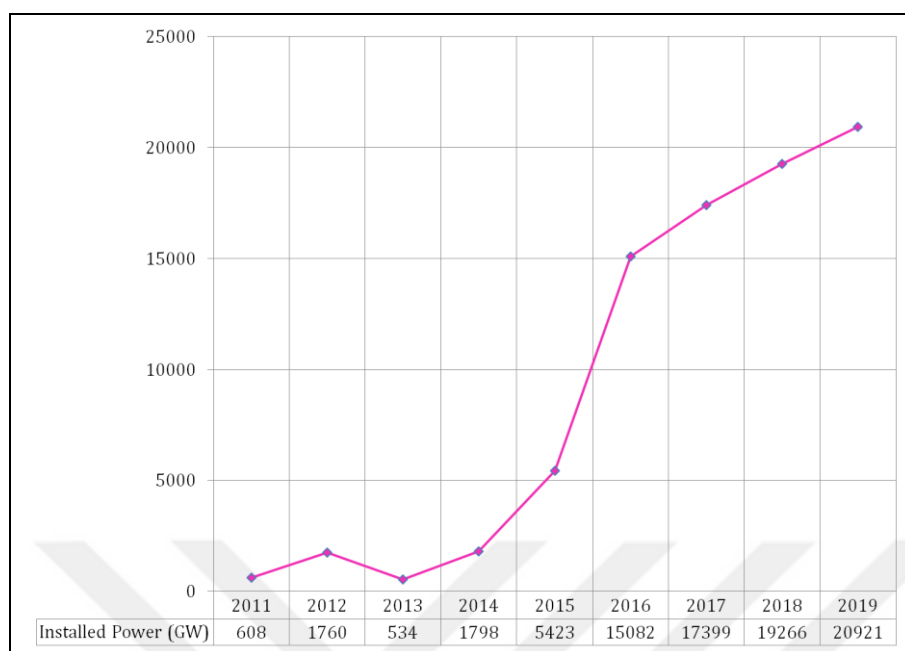


Figure 6.10 Change of Installed Power at Support Mechanism, as MW, 2011-19  
(Source: EPDK)

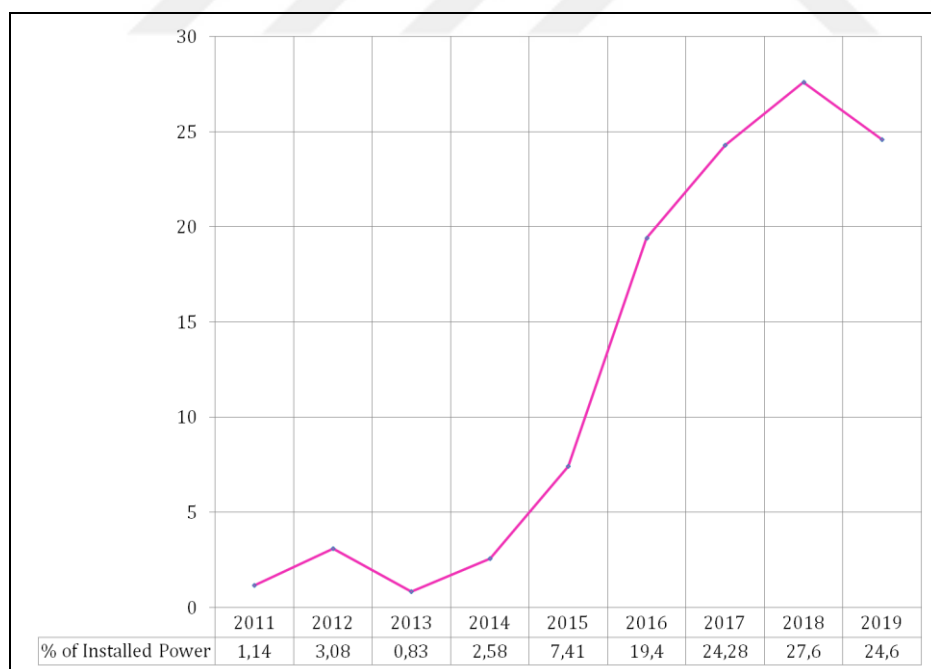


Figure 6.11 Installed Power at Support Mechanism, as % of Total Installed Power, 2011-19 (Source: EPDK)

An interviewee from the Ministry of Energy said that this uncontrolled increase in the number of participants in the support mechanism created burdens on the generators using conventional resources, other respondents too seemed agreeing with this view.<sup>660</sup> An interviewee claimed that EPDK issued licences for too many installed power, this later caused an uncontrolled inclusion at the support mechanism, and low prices by creating excess supply.<sup>661</sup> What caused the sector to become over-crowded, some respondents implied, was largely the support mechanism. Many investors constructed middle/small-sized renewable energy plants in order to benefit from this mechanism. Resultantly, the sector became over-crowded. However, a former high-rank energy bureaucrat who was one of the leading figures at the Turkish energy bureaucracy stated that the government targeted to diminish the effect of “duchy of İstanbul”, by creating lucrative business opportunities for the Turkish investors who originated from inner regions of Turkey.<sup>662</sup>

The stagnation period (2016-2020) has been different from the previous one in terms of changing reimbursement methods, since both investors and their financiers tended to prefer projects with guarantee of purchase to have a more predictable cash flow. This has become particularly vital in a changing global finance structure which has increased instabilities for investors. This tendency, even on its own, is enough to show that the trust in free market mechanism has been eroded in the electricity sector in Turkey in the eyes of investors. This situation, together with insufficiency of the renewable energy support mechanism in incentivising the development of a local renewable energy resources industry, brought the application of Renewable Energy Resource Zone (YEKA, in its Turkish acronym) tenders.

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<sup>660</sup> Anonymous interviewee from ETKB, Ankara, 2019, interview.

<sup>661</sup> Kenan Sitti, Ankara, October 2019, interview.

<sup>662</sup> Anonymous high-rank energy bureaucrat, Ankara, 2020, interview.

In the first solar YEKA tender, the Turkish government offered guarantee of purchase for 10 years for a 1000 MW onshore solar power plant in Konya/Karapınar region, demanded 60% domestic content usage and construction of a photovoltaic panel factory. A consortium of Turkish company Kalyon and Korean company Hanwha won the Dutch auction at \$69,9/MWh price, on March 20, 2017.<sup>663</sup> Shortly after the first solar YEKA, the first wind YEKA tender followed, at which the Turkish government offered guarantee of purchase for 15 years for a 1000 MW onshore wind plant, and demanded 65% domestic content usage. It resulted \$34,8/MWh price, and was won by a consortium of Germany's Siemens, and Turkish companies Türkerler and Kalyon, on August 3, 2017.<sup>664</sup> A similar 1000 MW wind YEKA tender consisting of four sub-regions was completed in May 2019, and the winning prices ranged between \$35,3/MWh and \$45,6/MWh.<sup>665</sup> On the other hand, a second solar YEKA tender was postponed due to inconvenient economic circumstances. Although these YEKA tenders are useful means to utilise more renewable energy resources vis-à-vis climate change, these guarantees of purchase will distort the market structure even more, regardless of normative superiority of renewable energy resources.

The Turkish government sustained its privatisation efforts even if liberalisation stagnated. However, differently from the privatisations at the introduction period, the Privatisation Administration decided to use Turkish lira in all tenders in December 2016, as a reflection of the government's endeavours to protect the country from negative effects of the depreciation in lira. This was also a step taken as a measure to ameliorate negative effects of Turkey's

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<sup>663</sup> Hüseyin Erdoğan, "Kalyon-Hanwha Co. to build Turkey's biggest solar plant", *Anadolu Agency*, March 20, 2017, <https://www.aa.com.tr/en/energyterminal/renewable/kalyon-hanwha-co-to-build-turkeys-biggest-solar-plant/3170>.

<sup>664</sup> Ebru Şengül, "Siemens-Türkerler-Kalyon win YEKA's 1st wind project", *Anadolu Agency*, August 3, 2017, <https://www.aa.com.tr/en/energy/finance/siemens-turkerler-kalyon-win-yekas-1st-wind-project/1306>.

<sup>665</sup> Ebru Şengül, "Turkey finalizes second YEKA wind tenders", *Anadolu Agency*, May 5, 2019, <https://www.aa.com.tr/en/energy/wind/turkey-finalizes-second-yeka-wind-tenders/25643>.

developing country status in the global finance structure. The privatisation of the distribution segment was completed before 2014; hence, the only sellable public electricity assets were generation plants, and the only privatisation activity in the sector was this, during the stagnation period. After 2016, the treasury obtained 5,93 billion TL in return for privatising 1.057,3 MW installed power (see Table 6.6). All privatisations were realised over Turkish lira, as a precaution against exchange rate risk after the failed coup d'état on July 15, 2016.<sup>666</sup> For these reasons, the government pre-emptively issued a decree (No 683), and fixed the exchange rate to its level on January 2, 2017, for debts to public.<sup>667</sup> With this decree, all privatisation payments were made by using 3.53 TL/dollar exchange rate although it was around 3,90 at the end of the year (see Figure 6.8). After these privatisations, the share of public in the total power generation segment fell to approximately 23% at the beginning of 2020. However, after the contract term of BOT plants expired, they were transferred to the public, and their privatisation may take some time, due to these plants' obsolete technology and unfavourable economic conditions which became even worse with the COVID-19 pandemic. Therefore, the share of public may increase a little bit, but there is no doubt that the future governments, regardless of their ideological orientation, will advance the privatisation process.

Table 6.6 Privatised Generation Plants, after 2016 (Source: *Privatisation Administration*)

| Plant Name               | Installed Power (MW) | Transfer Year | Value (million TL) |
|--------------------------|----------------------|---------------|--------------------|
| Karacaören 1, 2          | 78                   | 2016          | 515                |
| Manavgat                 | 48                   | 2016          | 370                |
| Fethiye                  | 17                   | 2016          | 128,025            |
| Kadıncık 1, 2            | 126                  | 2016          | 864,1              |
| Doğankent, Kürtün, Torul | 263                  | 2016          | 1.225,1            |
| Şanlıurfa                | 51                   | 2017          | 247,5              |

<sup>666</sup> "Özelleştirme ihaleleri Türk Lirası ile yapılacak", *Dünya*, December 6, 2016, <https://www.dunya.com/ekonomi/ozellestirme-ihaleleri-turk-lirasi-ile-yapilacak-haberi-340709>.

<sup>667</sup> Resmî Gazete, January 23, 2017.

|                                                   |      |                        |       |
|---------------------------------------------------|------|------------------------|-------|
| Adıgüzel, Kemer                                   | 110  | 2017                   | 324,1 |
| Almus, Köklüce                                    | 117  | 2017                   | 750,5 |
| Yenice                                            | 38   | 2017                   | 130,3 |
| Suçatı, Değirmendere,<br>Karaçay, Kuzuculu        | 8,2  | 2017                   | 30,5  |
| Anamur, Bozyazı, Mut-<br>Derinçay, Silifke, Zeyne | 2,8  | 2018                   | 9,04  |
| Menzelet, Kılavuzlu                               | 178  | 2018                   | 1.276 |
| Manyas                                            | 20,3 | 2018                   | 64,3  |
| <b>Total (1057,3 MW)</b>                          |      | <b>5,93 billion TL</b> |       |

Table 6.6 (continued)

Despite these privatisations, the public sector maintains a significant market power at the generation segment, and this is unlikely to change anytime soon. As of December 2019, 20% of electricity consumed in Turkey is still generated directly by the public sector, only the rest is generated by the private sector. A representative of the generation segment confirmed the complaints of private electricity generators from the public electricity generation company, EÜAŞ, about lowering and pressurising electricity prices at EPIAŞ.<sup>668</sup> According to some other respondents, EÜAŞ only calculates its operating costs; however, private generators had to cover their capital expenditures on the contrary.<sup>669</sup> Even though the electricity generated by the private sector is not fully liberalised and uniform, the market structure for a great portion of private generation is distorted through various guarantees of purchase mechanisms or other incentives. This group consists from BOT, BO, and some of the TOR plants of which the guarantee of purchase have expired gradually, thermal plants using local lignite, renewable energy plants selling at renewable energy support mechanism and YEKA, and thermal power plants benefiting from the capacity market. The total generation of this group corresponds to 30% of total consumption in the country. In other words, only 40% of electricity consumed in Turkey is generated under somehow liberal market conditions. With following rounds of YEKA, and Akkuyu nuclear power plant, which is planned to

<sup>668</sup> Obahan Obaoğlu, Ankara, November 2019, interview.

<sup>669</sup> Interview with Yusuf Tülek, Metin Başlı, and other anonymous interviewees.



start generation in 2023 and has guarantee of purchase, the market openness at the generation segment may regress even further. For these reasons, at first glance, Turkey may seem as if it is headed towards single buyer agency model to some; though, it is certainly not.

The downstream segments such as distribution and supply were affected later and less than the upstream segment. For example, at the electricity distribution segment, the depreciation of lira badly affected the financial flows of the companies, and created considerable risks about financial sustainability and meeting future liabilities. One of the interviewees said that some of the private investors at the distribution segment were even looking for an 'exit plan' from the sector.<sup>670</sup> In a way to confirm this, some distribution companies were sold to other companies by the original owners due to unprofitability of the distribution business; TREDAS and Osmangazi electricity distribution companies were two of them.<sup>671</sup> For electricity distribution investors, the main problem was realisation of the exchange rate risk. However, what turned this problem into a deeper and more fundamental one was miscalculations of the consulting firms and investors. According to projections of consulting firms, two basic premises were made: eligible consumers would not switch the supplier, and the bulk of the profit would be made at the supply segment; both proved wrong.<sup>672</sup>

At the same time, as mentioned before, some investors paid too much a price for electricity distribution companies during the privatisation process. An interviewee said that some investors paid almost a two times higher price than

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<sup>670</sup> Necmi Odyakmaz, Ankara, March 2018, interview; Oytun Alıcı, Ankara, November 2019, interview.

<sup>671</sup> "TETAŞ'a borç birikti, satışı gündeme geldi", *Enerji Enstitüsü*, March 15, 2018, <http://enerjiensitüsü.de/2018/03/15/tetasa-borc-birikti-satisi-gundeme-geldi/>; Merve Erdil, "Satılık elektrik dağıtım şirketi", *Hürriyet*, July 20, 2013, <http://www.hurriyet.com.tr/ekonomi/satilik-elektrik-dagitim-sirketi-23769264>.

<sup>672</sup> Oytun Alıcı, Ankara, November 2019, interview.

the economically rational levels.<sup>673</sup> Another problem of distribution companies was politically motivated demands of TEDAŞ, public company which physical distribution infrastructure belongs to. According to an interviewee, TEDAŞ (and sometimes EPDK) pressurised the distribution companies to employ more employees, as a part of governments' strategies to decrease unemployment.<sup>674</sup> An independent market observer confirmed that TEDAŞ forced private electricity distribution companies to increase their employee numbers, and sometimes intervened to the responsibility area of EPDK in a way to create ambiguous and unexpected regulations for the investors.<sup>675</sup>

Since the most downstream segment of the industry is supply, analysing it helps to understand the situation of the industry. At the same time, the whole liberalisation story was for creating competitive prices for consumers at the level of supply. Hence, if there is not enough market maturity at consumption side, it is safe to argue that liberalisation is either immature, or incomplete, or failed. From this perspective, outlook of the electricity supply segment in Turkey is a useful indicator. In fact, in terms of sectoral problems, the supply segment was in a less risky position since it was not a capital intensive business as generation and distribution segments were. Nonetheless, accumulating problems of the other segments, such as generation, had repercussions on the downstream segment ultimately. The depreciation of lira, fluctuation in electricity prices, and boosting costs of renewable energy support mechanism (YEKDEM) in the final electricity price made the existing contracts between generators, suppliers, and consumers too burdensome to maintain. Therefore, electricity supply companies started to terminate their contracts with the consumers unilaterally.<sup>676</sup>

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<sup>673</sup> Anonymous energy consultant, Ankara, 2019, interview.

<sup>674</sup> Anonymous energy consultant, Ankara, 2020, interview.

<sup>675</sup> Anonymous energy consultant, Ankara, 2020, interview.

<sup>676</sup> "SEPAŞ, indirimli elektrik sözleşmelerini dövizdeki artış sebebiyle feshedecek", *Enerji Enstitüsü*, August 30, 2018, <http://enerjiensitüsü.de/2018/08/30/sepas-indirimli-elektrik->

In 2013, only 26,6% of total consumed electricity was consumed by free consumers; later, at its zenith in 2016, the market openness reached at 61,8% of the total consumed electricity. 2017 was an interesting year in this sense; in one hand, the market openness declined to 55,5% (see Figure 6.12), on the other hand, the number of free consumers climbed to 4,6 million from 2,6 million (see Table 6.7). These figures worsened later in 2018 and in 2019; both number of free consumers and their consumption decreased further. The collapse in both the number and consumption of free consumers demonstrates the erosion and stagnation in the market structure during the stagnation phase. The EPDK, in order to revive the supply segment, adopted a new regulation about last resource supply according to which, the consumers with electricity consumption 50 million kWh/year or more would not be supplied electricity through regulated tariffs, but had to make contract with a supplier company.<sup>677</sup> This limit was later lowered to 10 million kWh/year and to 7 million kWh/year for 2019 and 2020, respectively. This limit is expected to decrease even further in the following years. Although the main purpose of this step was to revitalise the supply segment, the distribution segment did not support this idea, an official representing the distribution segment said.<sup>678</sup>

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[sozlesmelerini-dovizdeki-artis-nedeniyle-feshedecek/](http://enerjiensitüsü.de/2018/09/18/elektrik-piyasasinin-en-kotu-senaryosu-kapida/); "Elektrik piyasasının en kötü senaryosu kapıda", *Enerji Enstitüsü*, September 18, 2018, <http://enerjiensitüsü.de/2018/09/18/elektrik-piyasasinin-en-kotu-senaryosu-kapida/>.

<sup>677</sup> Resmi Gazete, January 20, 2018.

<sup>678</sup> Oytun Alıcı, Ankara, November 2019, interview.

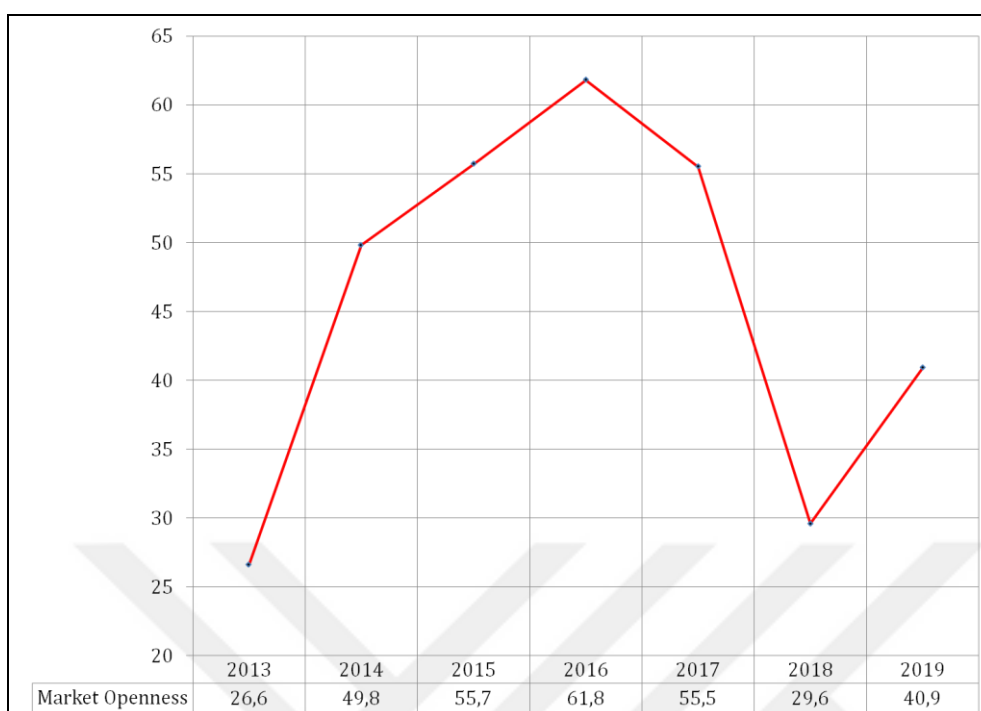


Figure 6.12 Electricity Market Openness in Turkey, as % of total, 2013-19

(Source: EPDK)

Table 6.7 Number of Free Consumers, and Their Electricity Consumption, 2013-20

(Source: EPDK)

| Year | Free Consumers      |                   |
|------|---------------------|-------------------|
|      | Consumers (million) | Consumption (TWh) |
| 2013 | 0,626               | 65,60             |
| 2014 | 1,147               | 128,05            |
| 2015 | 2,037               | 107,80            |
| 2016 | 2,635               | 131,23            |
| 2017 | 4,579               | 125,26            |
| 2018 | 0,146               | 69,18             |
| 2019 | 0,339               | 93,90             |
| 2020 | 1,015               | 128,91            |

Despite stagnation in the Turkish electricity market, the Turkish companies, with the help of the experience they gained in Turkey's liberalising electricity market, started to serve in the other countries in a way to increase Turkey's economic role in and beyond its neighbourhood. Among those companies,

power ships of Karadeniz Holding have a distinct place. These ships are floating power plant vessels which can serve to any country in its port. As of 2020, these Turkish ships serve to 11 countries; among them are Cuba, Lebanon, Indonesia, and Ghana.<sup>679</sup> Some other examples are Zorlu energy which serves in Pakistan and Israel, Enka which serves in Iraq, Russia and Libya, Çalık energy which serves in Turkmenistan, Uzbekistan, Iraq, Georgia, Kosovo and Libya, Gama energy serving in Ireland, Iraq, Libya, and some other countries, Aksa energy which serves in Turkish Republic of Northern Cyprus, and in African countries such as Madagascar, Ghana and Mali, Anadolu energy which serves in mainly Georgia.<sup>680</sup> Thus, Turkey could have a stake in electricity business at a regional scale with the hand of these companies which were created as a result of electricity liberalisation in the country.

To summarise why liberalisation stagnated, it is important to re-emphasise that, the problems started to accumulate with low electricity prices which was caused by decreasing demand growth and excess supply during 2015 and 2016 (see Figure 6.7). This created some difficulties for the generation segment in the first place. However, investors in the distribution and supply segments did not have unbearable hardships during this period. Then, the electricity prices started to normalise but, the Turkish lira depreciated this time, especially after mid-2016, and the electricity demand growth decreased further (see Figure 6.8 and 6.9). Thus, the troubles spilled over to the distribution segment. Lastly, because electricity prices increased slower than the generators needed, but faster than the electricity tariffs could be raised politically, this pleased neither generators, nor suppliers. This was because the prices were low for generators to make a satisfying profit, but was high for suppliers to take advantage of the margin between market prices and regulated tariffs while contracting with free consumers. Simply, the suppliers could not have margin to offer discounts to

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<sup>679</sup> *About*, Karpowership, October 17, 2020, <http://www.karpowership.com/en/karpowership>.

<sup>680</sup> For a more detailed analysis, see: Z. Işık Adler, "Türk Enerji Şirketleri, Yurtdışı Yatırımlarını Sevdi", *Enerji Panorama*, Vol. 5, No 55 (2018), pp. 22-28.

free consumers, and tariffs could not be abolished altogether, due to domestic political restraints. Therefore, the whole sector was affected by the problems ultimately.

Consequently, the internal economic factors demonstrated a preventive character during the stagnation phase of liberalisation; they slowed down the process and caused some regression even from the achieved level of free market (see Table 6.8). Increasing state support and intervention to the liberalising sector was the obstacle. On the one hand, the emergence of excess supply curbed the investors' profits and decreased economic attractiveness for new entrants; on the other hand, deteriorating general economic conditions urged the private investors to seek for more state intervention to the sector, for their own good. These negative developments created an inability of the private sector to meet its future liabilities, and the state's interventions targeted to buoy the sector in the short term, rather than advancing liberalisation. Regardless of the motivation behind, further state intervention meant stagnation and regression in the liberalisation process. Due to above-mentioned non-hierarchical regime complexity in the energy structure (see Chapter 3.2 and Chapter 6.1.2), the Turkish governments felt no serious external pressures about furthering electricity liberalisation.

Table 6.8 Internal Economic Factors during Stagnation Phase

| <b>Main Factor</b>                | <b>Impact</b> |
|-----------------------------------|---------------|
| Emergence of Excess Supply        | Preventive    |
| Deteriorating Economic Conditions | Preventive    |

### 6.2.2: Internal Political Factors

The other part of the intervening variable, internal political factors, evolved to the detriment of further liberalisation starting from mid-2015, and accumulated negative consequences throughout the following years. The economic aspects of

problems in the electricity sector could not be solved, particularly due to obstacles created by the internal political context. Therefore, what distorted the effects of the global power structures lies in here. This time, the change in the internal political realm was not a function of the change in the internal economic conditions, contrary to the situation at the introduction phase. It was a more politically induced change and caused a reordering in the priorities of governments. Briefly, when elections started to become more frequent, electricity liberalisation process lost its significance and priority for governments which opted for utilising electricity for their short-term political gains, as rational political actors. The causal correlation between elections and politicisation of electricity can be tested empirically as well.

This is the part where effects of the intervening variable, the ratio of 'possible returns / perceived political costs' will be explored. At the previous parts of this chapter, external economic and political factors have been handled as independent variables. Differently from them, the internal political factors (together with internal economic factors) are where the intervening variable is shaped mainly. Here, it will be revealed even more that the politicians are not disinterested human agents. The public choice theory is a useful theoretical lens to understand the effects of unsuitable internal political factors and the effects of politicians in that environment better, since its main issue realm is non-market decision making.

The public choice theory claims a place at the intersection of economics, politics (domestic and international), sociology, law, and even psychology. Yet, it is regarded as a branch of political economy, most of the time. It provides analyses about persons, regardless of if they are bureaucrats, voters, or politicians behaving politically; thus, it is a set of theories about government failures.<sup>681</sup>

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<sup>681</sup> James M. Buchanan, "What is Public Choice Theory?", *Economic Education Bulletin*, Vol. 43, No 5 (2003), pg. 3.

Briefly, it is “politics without romance”. The public choice theory applies the methods of economics to the field of politics to understand the ways of decision making.<sup>682</sup> Thus, it fits well to Strange’s desire to conjoin the disciplines of International Relations and economics very well. Just like the market failures, its focal is government failures. It can occur due to specific interests of some circles or groups; and thus, according to the public choice theory, there is not one single public interest, but there are many value-driven definitions for it. One of the main arguments of the public choice theory is that the decision makers are self-interested people as anyone else. Nonetheless, the theory does not necessarily argue that all government decisions are made according to the self interests of decision makers. Yet, it emphasises that the political leaders and their parties have also their own interest: to get re-elected. The only way of succeeding this is persuading new voters while keeping the existing ones. How the pressing internal political factors contributed to the stagnation in the Turkish electricity liberalisation fits to this framework well, as will be shown.

After the year 2016, the Turkish governments could not have the necessary ‘window of opportunity’ which contributed much to the introduction of the restructuring process (see Chapter 5.2.2), to solve the problems in neoliberal structuralisation of electricity sector; this was the main issue regarding the internal political factors. Simply, the frequent elections changed the priorities of governments from economic reforms to get re-elected, and prevented them to allow electricity prices to increase to cost-reflective levels. Because the Turkish lira depreciated severely, dollar-linked costs of the electricity sector required electricity tariffs to be raised as well (see Chapter 6.2.1). However, as rational political actors which are targeting to get re-elected, the governments had to keep end-user, particularly residential, electricity prices at a certain degree in order to maintain electoral support during frequent elections.

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<sup>682</sup> Eamonn Butler, *Public Choice - A Primer*, Institute of Economic Affairs, 2012, pg. 21.



What urged the Turkish politicians to pursue their own short-term political interests, as the public choice theory suggests, was the continuous electoral pressure which contributed to occurrence of the stagnation mainly by increasing the political costs of possible market-based solutions to the economic problems of the electricity sector. That is to say, in a political atmosphere where frequent elections are held, the ruling party could not have chance to ameliorate the problems in the electricity market within the framework of free market mechanisms. Therefore, in order to comprehend the causal correlation between domestic political conditions and stagnation of electricity liberalisation better, the domestic political outlook should be examined.

The political problems were caused mainly by the consecutive elections which started to become more frequent after 2015, and was further exacerbated by a failed coup d'état in the summer of 2016. When the JDP took the office in November 2002 and formed a single-party government after a decade of coalition governments and frequent elections, the expectation was an enduring stability during which structural reforms would be undertaken. For electricity liberalisation, this was true until 2016. However, during the stagnation period, increasing frequency of the consecutive elections altered what governments focused more on. Between November 2002 and June 2015, there were eight elections in 150 months, meaning 18,75 months per election (see Table 5.7). However, after 2015, the frequency of elections doubled, and between June 2015 and June 2019, there were only eight months between the elections. Nine months after the failed coup d'état, a referendum was held to switch the administrative system to presidentialism from parliamentarianism. In June 2018 elections the ruling party lost its majority at the parliament after 16 years, and became obliged to seek for a compromise with the other parties. Following the elections, economic problems multiplied and started to affect the household acutely. For these reasons, more doubts appeared about the political stability.

In such a politically problematic domestic atmosphere, the always-felt electoral pressure urged governments to exploit electricity as a political commodity in order to sustain the electoral support. A great majority of interviewees confirmed this proposition by saying that political concerns were a parameter in determining the electricity prices.<sup>683</sup> The validity of this argument can be checked empirically as well. When the elections and electricity price increases are compared to uncover the temporal correlation between the two, it is seen that the electricity prices were raised after the elections, and were deliberately avoided before them (see Figure 5.10). If statistically calculated on a monthly basis, it is seen that the probability of an increase in electricity price three, two, and one month(s) before an election is 20% for the first, and 0% for the last two. On the other hand, the same probability for three, two, and one month(s) after an election is 50%, 40%, and 20% respectively (see Table 6.9).<sup>684</sup> This huge and meaningful difference is enough to show the political effects on the electricity price increases, even on its own.<sup>685</sup>

Table 6.9 Probability of an Electricity Price Increase before/after Elections, (%)

(Source: Own Elaboration)

|                 | Before | After |
|-----------------|--------|-------|
| <b>1 Month</b>  | 0      | 20    |
| <b>2 Months</b> | 0      | 40    |
| <b>3 Months</b> | 20     | 50    |

Of course, the electricity price was not the only factor determining the voters' preferences, but certainly was a factor since it is an important indicator which households can follow the change on a monthly basis easily on their bills. A recent study has found that only 29% of voters do not take the energy policies of the political parties into account while deciding their votes.<sup>686</sup> Furthermore,

<sup>683</sup> Various interviewees, Ankara, 2019-2020, interview.

<sup>684</sup> For the calculations, household electricity prices in Figure 5.11 were used.

<sup>685</sup> For a more detailed calculation on the same issue, see: Serhan Ünal, "Elektrik Zamları ve Seçimler", *Enerji Panorama*, No. 72 (July 2019), pp. 30-32.

<sup>686</sup> Volkan Ş. Ediger et al., *Turkish Public Preferences for Energy*, Center for Energy and Sustainable Development, Kadir Has University, 2020, pg. 96.

more than 90% of the Turkish citizens think that the electricity prices are expensive.<sup>687</sup> The same research also revealed that only a third of Turkish voters are “positive” about the government’s policies in the field of electricity.<sup>688</sup> Therefore, pleasing the voters’ expectations in the field of energy is a fundamental element while they are voting. Due to frequency of elections and populist side effects of them, decision-makers had to decide not in accordance with the sectoral needs, but mostly in accordance with the pressing domestic political issues. While politicians had long-term desires to liberalise the electricity sector, their short-term goals caused them to remain tied to the reigns of economic power and potential rent sources.<sup>689</sup> An interviewee summarised this situation by saying that Turkey managed privatisation, but failed liberalisation in the electricity sector.<sup>690</sup>

Similarly, national tariff was maintained through the price equalisation scheme to compensate regional price differences. Interviewees agreed that price equalisation scheme has always been a politically motivated regulation; it has targeted not to annoy the voters in the south eastern distribution regions which have the highest theft ratios up to 85%. The European Commission, too, in its 2016 Turkey report, acknowledged this by claiming that the Turkish government effectively controlled the electricity prices for its domestic political agenda, despite the existence of automatic pricing mechanism in principle.<sup>691</sup> In controlling electricity prices, price equalisation mechanism and target ratios for theft and losses assigned for different distribution companies played a crucial role. Another perfect indicator of exploitation of electricity in domestic politics was the electricity support for the poor socioeconomic groups in the society. Within the framework of this decision, poor families started to be given

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<sup>687</sup> Ibid., pg. 65.

<sup>688</sup> Ibid., pg. 93.

<sup>689</sup> Ulusoy and Oğuz, “The privatization of electricity distribution in Turkey”, pg. 5022.

<sup>690</sup> Kenan Sitti, Ankara, October 2019, interview.

<sup>691</sup> European Commission, *Turkey Progress Report*, 2016, pg 36.

electricity bill support up to 150 kWh per month.<sup>692</sup> What is interesting about the timing of this decision is that it was made just one month before the March 2019 local elections. This strengthens the claim that electricity is exploited as a political commodity in Turkey. None of the interviewees clearly rejected the view that the electricity price is used for political purposes by the Turkish politicians.<sup>693</sup> This is important in terms of understanding how different stakeholders of the Turkish electricity sector perceive the issue.

Briefly, the internal political factors were generally preventive for the further liberalisation in the Turkish electricity market (see Table 6.10). Increasing sequence of elections and a military coup d'état, even if it failed, damaged the domestic political atmosphere greatly and caused a two years-long state of emergency. Being further deteriorated with the coup attempt, the already continuing domestic political problems forced decision makers to take non-market and domestic political concerns into consideration instead of purely focusing on sectoral needs. In this situation to occur, intensifying frequency of elections had a determining role by creating a permanent and steady electoral pressure. In order to preserve its electoral popularity, the government had to opt for exploiting electricity as a political commodity. Thus, internal political factors did not create stagnation itself, but prevented the necessary steps to be taken on time, and in an economic reasoning.

Table 6.10 Internal Political Factors during Stagnation Phase

| Main Factor         | Impact     |
|---------------------|------------|
| Changing Priorities | Preventive |

<sup>692</sup> Resmî Gazete, February 28, 2019; "İhtiyaç sahiplerine 150 kilovatsaate kadar elektrik desteği", *Enerji Günlüğü*, February 28, 2019, <https://www.enerjigunlugu.net/ihciyac-sahiplerine-150-kilovatsaate-kadar-elektrik-destegi-31308h.htm>.

<sup>693</sup> Various interviewees, Ankara, 2019-2020, interview.

This chapter answered its organising question, “why did electricity liberalisation stagnate in Turkey, despite constant global power structures?” The chapter showed that the main reason for stagnation was deteriorating domestic economic atmosphere which distorted supply-demand structure in the sector by pressurising electricity demand growth downwards, and manifested itself in shrinkage of the value of the Turkish lira in a way to cause troubles in the upstream and midstream segments, generation and distribution. At the same time, this chapter shed light on the continuity in the character of external and changing outlook of the internal realms. The former, as the independent variable (global power structures), remained constant, while the latter, intervening variable (package of internal factors), changed significantly in comparison to the previous phase of the liberalisation. Thus, it became possible to measure the effect and determining role of the intervening variable in Turkey’s adaptation to the changes in the global power structures. The next chapter is for conclusions.

## **CHAPTER 7**

### **CONCLUSION**

At the heart of this thesis there is a major puzzle about understanding in what ways Turkey integrates to the world economy. For any country demonstrating similar developing country characteristics in the global structures of power, this issue is of vital importance as well as for Turkey. The endeavour to understand this has needed to understand some other aspects related with the topic, which have been dealt with in the respective chapters of the thesis so far. This concluding chapter starts with my findings in a concise manner with reference to global neoliberal turn, structural power and energy structure in it, and main issues about the Turkish electricity liberalisation. Then, I make an assessment of neoliberal structuralisation in the Turkish electricity market by emphasising contributions of this study to international political economy in general, and, more specifically, to literature in the fields of structural power, energy studies, and Turkey's political economy. Because a general assessment of global electricity liberalisation has been made before (see Chapter 3.4.3), this conclusion chapter includes implications for Turkey only.

The study depended upon the premise assuming that neoliberal restructuring of electricity sector is a function of changes in the global power structures. The global character of electricity liberalisation and emergence of a new organising principle in the electricity sector were two foundations supporting this assumption. In order to unearth the factors created a new organising principle in the electricity sector, the thesis first examined rise of neoliberalism to the position of dominant ideology in global political economy. Then, reflections of

neoliberalism on the global energy power structure was scrutinised from the perspective of structural power. Later, this structural framework was used while analysing the influence of external factors on neoliberal structuralisation of Turkey's electricity sector. Ultimately, distorting effects of Turkey's internal factors on the liberalisation process were integrated to the analysis through public choice theory.

As the conclusion chapter, the organising question of this chapter is the main research question itself, "why and to what extent do changes in the global power structures influence domestic energy policy preferences of Turkey?" The independent variable of the thesis is global power structures, they are observed through external economic and political factors. These factors affect the dependent variable which is the domestic energy policy preferences of Turkey and is represented by the electricity liberalisation in the thesis. The study includes an intervening variable as well. It comprises the package of internal economic and political factors. The intervening variable corresponds to the ratio of 'possible returns / perceived political costs'; this ratio influences the decisions of governments about advancement of the liberalisation process. Simply, if the possible returns / perceived political costs ratio is greater than one, this means that further liberalisation is feasible, not only economically, but also politically. On the other hand, if the result is between zero and one, it means that further liberalisation is politically unfeasible, regardless of the degree of economic feasibility.

The thesis, as its main argument, has founded that "the global power structures create a tendency in Turkey to adapt to changes in the energy structure, but the adaptation becomes a hybrid and non-linear one due to internal factors." To reach this conclusion, the thesis has examined the liberalisation of the Turkish electricity market from a combined perspective of international political economy and structural power. The target has been revealing distinctive features of electricity liberalisation in a typical developing country by

problematising the stagnation in the electricity liberalisation process in Turkey. Thus, this study is a single case study-type research in its core.

In order to analyse the aforementioned main argument, findings of the thesis should be reviewed around the auxiliary research questions, and the chain reaction described in introduction. The first auxiliary research question was that what were the attributes and policy diffusion mechanisms of neoliberal structuralisation. The second chapter has shown that neoliberalism differs from other previous variants of liberalism with its insistence on liberalisation. For neoliberalism, in sectors and economic areas which have not been arranged as a market naturally, market should be created somehow with hand of the state, if necessary. The electricity sector which has not developed as a market traditionally has been a perfect target of and example for neoliberal structuralisation. The neoliberal ideology (or thinking, approach), as the chapter has explained, spread thanks to purposeful efforts such as elite recruitment and international policy enforcement (see Chapter 2.3). The global policy convergence on electricity liberalisation through global structures is a good example of policy diffusion mechanisms as well. This is also to say that neoliberalism includes policy prescriptions for countries to be followed voluntarily or reluctantly. The neoliberal structuralisation in the electricity sector was not an exception.

This takes us to the second auxiliary research question: how did neoliberal structuralisation and structural power concept relate to the energy structure. The third chapter showed that primary global power structures particularly in the fields of finance and knowledge have been deeply affected by the global neoliberal turn. Within the framework of the 'chain reaction', global finance and knowledge power structures have served as policy diffusion mechanisms of neoliberalism. In spite of the fact that the energy structure, as a secondary power structure of which effectiveness has been hampered by non-hierarchical regime complexity springing from high-politics attribute of energy issues, has



not been as influential as the finance and knowledge power structures, emergence of a new organising principle (e-Lectricity) in the electricity sector has caused global policy convergence on neoliberal structuralisation of the electricity sector albeit with different motivations in developing and developed countries.

As the brief examination of selected developed and developing countries showed (see Chapter 3.4), every country has its own story of electricity liberalisation, and yet, some patterns are not absent altogether for developing and developed countries. The former group of countries are motivated more by practical concerns, while the latter group of countries being motivated more by the ideological, normative beliefs about the benefits of liberalisation. The Turkish electricity liberalisation process has many similarities with those of the developing countries. The endeavours for attracting foreign investment, pragmatic concerns about raising funds for the government programmes, changes in the external atmosphere and in the voters' preferences are some of the most influential factors in the Turkish case which presents an opportunity to observe characteristics of an electricity liberalisation in a developing country.

Having identified determining role of the global power structures, now another auxiliary research question can answer how and why global power structures influenced Turkey's electricity sector policy towards liberalisation. As is often the case in developing countries, Turkey has fallen into acute need of foreign financial resources often, especially after 1980s. The structural adjustment loan agreements between Turkey and the World Bank helped to preparation of the ground in the Turkish bureaucracy throughout 1980s. Thus, the first step towards liberalisation was taken as early as 1984 and many more followed shortly after. Nonetheless, due to cumbersome bureaucracy, political opposition, and constitutional obstacles, only a piecemeal liberalisation could be possible. At this early stage of ad-hoc liberalisation, the main target was to

attract the private sector particularly to the generation segment due to frightening demand increase, rather than liberalisation.

In the year 2001, a major economic depression hit Turkey and pushed the country to international financial institutions which have already been urging Turkey to electricity liberalisation for years. Having faced with the disciplining edge of the global financial structure, Turkey had to introduce full-scale electricity liberalisation in order to obtain credit, as a requirement of stand-by agreements. On the other hand, due to discursive superiority and global ascendancy of neoliberalism and neoliberal beliefs and ideas in the global knowledge structure, the Turkish governments had to opt for neoliberal structuralisation for legitimising their actions and policies in the eyes of international financial circles and advancing Turkey's EU membership process. This supportive external realm coincided with suitable circumstances in the internal realm where unsustainable public deficits caused by electricity demand growth and a political window of opportunity facilitated the reform. Thus, the internal realm had no diverting effect on the influence of global power structures on Turkey's electricity policy.

However, electricity liberalisation in Turkey could not be completed, and even regressed as it has been mentioned in the chapter about indicators of stagnation (see Chapter 4.3.3). The last auxiliary research question focused on this and asked why electricity liberalisation stagnated in Turkey, despite constant global power structures. The chapter six showed that after 2015, changes in the internal realm of Turkey has increasingly pressurised advancement of liberalisation, and stagnation occurred in the restructuring process. After 2015, despite constant supportive character of external realm, Turkey's domestic economic problems multiplied, and together with sectoral problems in the electricity sector, prepared a growing necessity for state intervention. Parallel to deteriorating economic conditions, priorities of governments shifted towards sustaining electoral support due to increasing frequency of elections, as the

public choice theory suggests. For these reasons, buoying the private electricity investors has been prioritised over further liberalisation; then stagnation, even certain degree of regression from the achieved level of liberalisation occurred.

The distinctive feature of the stagnation phase was incompleteness of electricity liberalisation programme, and increasing state interference with the market conditions in different forms, such as incentives, guarantees of purchase, or indirect intervention to the price structure. The root cause of these market distorting steps was deteriorating domestic economic outlook and its reflections on the electricity sector restructuring. At the same time, internal political factors negatively contributed to deterioration in the domestic economic outlook. In other words, although independent and dependent variables were still positively correlated with each other, intervening variable (internal realm) made distorting effects on the relationship in between. After the introduction period, stagnation emerged for this reason.

The whole liberalisation story in the Turkish electricity market had ups and downs during its forty years history. At the introduction phase (2001-2015), both economic and political factors at the external and internal realms were completely supportive for the reform (see Table 7.1). In other words, independent, intervening, and dependent variables were positively correlated with each other. When independent variable changed towards liberalisation, dependent variable, too, changed in the same way without any distorting effect caused by the intervening variable. For this reason, liberalisation advanced rapidly until the stagnation phase which corresponds to the period after 2015. Benefiting from this long electricity liberalisation endeavour of Turkey and its relationship with the global power structures, deductions can be made about Turkey's place in the global power structures of international political economy, main pillars of the Turkish domestic energy policy, and the energy structure.

Table 7.1 Comparison of External and Internal Political Economic Factors at  
Different Phases

| <b>Factors / Phases</b>   | <b>Introduction</b> | <b>Stagnation</b> |
|---------------------------|---------------------|-------------------|
| <b>External Economic</b>  | Supportive          | Supportive        |
| <b>External Political</b> | Supportive          | Supportive        |
| <b>Internal Economic</b>  | Supportive          | Preventive        |
| <b>Internal Political</b> | Supportive          | Preventive        |

First of all, the long history of electricity liberalisation showed that Turkey has policy learning capacity in the field of energy. The interviewees agreed the view that Turkey has policy learning capacity on the grounds defended throughout the study, except only one respondent.<sup>694</sup> This can be expanded to fields other than the energy as well. In the successful learning, several factors were influential such as global neoliberal turn and discursive superiority of it, the effects of global power structures of finance, knowledge, and energy on Turkey, the structural adjustment programmes of the international financial institutions, and the influences of international organisations such as non-energy ones like the European Union, and energy related ones like the International Energy Agency. All these combined affected Turkey in a way that the country imported and commenced a foreign-inspired policy successfully.

With the global neoliberal turn which started around 1980s, neoliberal policy prescriptions spread all over the world and acquired an ecological dominance at the global knowledge and finance structures in which the legitimacy of other ideological approaches eroded sharply due to the discursive superiority of neoliberalism. This ecological dominance created a shift in the organising principle of the energy structure as well. In this environment, Turkey, like many other countries having only a narrow range of options in the global power structures, was almost spontaneously urged to implement neoliberal policies by the international financial structure in which financial sources were allocated to

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<sup>694</sup> Various interviewees, Ankara, 2019-2020, interview.

countries mostly on the condition that if they adopted the neoliberal policies. The structural adjustment programmes spearheaded the implementation of neoliberal prescriptions in the country, through policy lending strategies. Also, parallel to policy enforcement effect of the international financial structure, Turkey learnt much via international regimes, thus decreased the related transaction costs borne by electricity liberalisation.

Another deduction is that despite Turkey's policy learning capacity, the implementation of the learnt policy is constrained by the internal realm. For example, electricity liberalisation, as a foreign-inspired policy, needed to be legitimised at the internal realm, in a highly fragmented political environment, against harsh criticisms defending decades-long statist, anti-privatisation, and anti-neoliberal approaches. The convergence of various governments from diverging ideological backgrounds proves the structural influences of global trends on Turkey; the problem is, when the ruling parties lost the office, they started to oppose to the electricity liberalisation to gain votes from anti-neoliberal communities. Because liberalisation and privatisation had not a grassroots support at the level of voters, anti-neoliberal approaches were politically more profitable.

For this reason, most of the governments preferred a piecemeal liberalisation in order to reap the benefits of electricity liberalisation. A comprehensive, systemic restructuring could only be possible through a window of opportunity created by an economic crisis in 2001. When the economic crisis wiped out entrenched statist economic beliefs, and created a powerful single-party majority government, it became much easier for electricity liberalisation to capture the strongholds in bureaucracy and civil society. Yet, the covert opposition to the electricity restructuring maintained even after the reform commenced. All these showed that the pace of reform, even though there were global structural factors, was determined by the convenience of the internal realm, and bound by the domestic political conditions. A support to this

deduction comes from Susan Strange again; according to her, “the range of politically practicable options open to politicians at any time is circumscribed by local circumstances”.<sup>695</sup> Therefore, implementation of a learnt policy cannot be analysed without considering internal realm of the country.

The third deduction is that the Turkish governments tend to exploit electricity as a political commodity in the absence of a disciplining edge. The Turkish electricity liberalisation experience includes many examples of exploiting electricity as a political commodity. Most probably, the underlying reason for this tendency is the pragmatic, unideological approach of the Turkish politicians to the electricity liberalisation. Unlike the developed countries which constitute the core of the global power structures, Turkey, and most of the other countries with similar characteristics, chose electricity liberalisation for pragmatic reasons, not due to firm, grassroot ideological standpoints. For this reason, when an opportunity or necessity emerged to use electricity sector for political purposes, governments found it hard to resist reaping the short term benefits of doing so, especially during the election times.

On one hand, traditionally and historically formed distributive character of the Turkish state, on the other hand, expectations of the voters prepared the suitable environment for exploitation of electricity sector for domestic political purposes. However, when a disciplining factor emanated, especially at the external realm, such as a stand-by agreement with the IMF, this paved the way for further liberalisation by constituting either an extra political cost, or an attractive economic benefit. The disciplining factor was sometimes international financial institutions invited after an economic crisis which caused acute need for foreign finance, or sometimes was the relationships with the European Union, as an anchor in the field of foreign policy. Thus, when the disciplining edge of the global finance structure, or international regimes had upper hand in

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<sup>695</sup> Stopford, Strange and Henley, *Rival States Rival Firms*, pg. 63.

comparison to the domestic political agenda, electricity liberalisation could proceed more easily.

Fourthly, by using Table 7.1, it can also be deduced that, the internal factors prevail over the external factors, during stable, normal times. That is to say, the intervening variable has more capacity to affect the dependent variable as long as there is no change in the organising principle of a global power structure. However, when a change in the organising principle of a global power structure, energy for example, occurs, external factors become more influential and affect the country's policy preferences. In fact, this is neither surprising, nor peculiar to Turkey. Strange summarises the related international political economy literature well; she says that the range of politically practicable options open to politicians at any time is circumscribed by the power base upon which they depend, and by external forces beyond their control, in addition to the local circumstances which has been mentioned above.<sup>696</sup>

In terms of the Turkish electricity liberalisation, both the introduction and stagnation phases present examples strengthening this claim. During the introduction period, despite continuing supportive character of external economic and political factors for a long time before the actual reform, the electricity liberalisation could evolve into a comprehensive full-scale programme only in 2001 when internal economic and political factors became suitable for reform through a window of opportunity. Later, during the stagnation period, in spite of still continuing supportive attribute of external economic and political factors, the liberalisation endeavours decelerated, stagnated, and, in some respects, even regressed, mainly because of domestic political turmoil which made the amelioration of repercussions of deteriorating domestic economy impossible. Hence, the government had to create relief

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<sup>696</sup> Ibid.

mechanisms for the different segments of the sector through a set of complex and covert patterns, most of the time.

An in-depth analysis of the stagnation phase proves that the internal political situation has been the main factor determining only the pace of neoliberal restructuring, but not the continuation of liberalisation itself in the absence of a disciplining edge. Starting to accumulate in 2015, the deterioration in the Turkish economy had repercussions on the electricity sector. The problems created various extra troubles for different segments (see Chapter 6.2.1), such as low prices for generators, plummeting value of lira for both generators and distributors, and disappearance of free market conditions due to eroding profit margin for suppliers. These troubles, in fact, could have been solved simply by letting the electricity prices reflect the free market conditions. If the prices, and regulated tariffs, could have been raised appropriately, generators and suppliers would be able to adjust their positions for satisfying profits. Of course, on the other side of the coin, consumers would have paid more in that scenario.

These repercussions of the deteriorating Turkish economy could have been ameliorated if the internal political factors had been suitable for government to manoeuvre accordingly, instead of prioritising the electoral support at every occasion. However, the domestic political conditions were not as suitable as they were during the introduction period. Basically, the government felt necessary to get involved in order to lessen the risks about financial sustainability in the sector which the private investors had shouldered. Yet, whatever the underlying reason was, all the measures taken distorted the free market conditions, stalled the liberalisation process, and caused regression from achieved level of market maturity even. In a nutshell, problems at the electricity sector were reflections of the internal economic factors, but what the internal political factors did was preventing the government from letting the market to readjust itself through free market mechanisms.



Besides these, as a general deduction, the thesis has identified that the electricity liberalisation positively contributed to internationalisation of the Turkish electricity sector. It did this by increasing Turkey's visibility, role, and stake in international political and economic affairs. The neoliberal structuralisation in the Turkish electricity sector made two contributions to the country in this sense. Firstly, this process created a new circle in bureaucracy, civil society, and business dealing with these issues, and equipped them with a perspective about how to deal with electricity liberalisation issues. This placed them above their counterparts from the latecomer countries, by enabling them to share their 'combat proven' experiences from a developing country viewpoint. In the international organisations, events, and meetings, the representatives of Turkey undertook more role and obtained more visibility. Secondly, because neoliberal structuralisation and privatisation opened a wider space for the private sector, this created a group of Turkish electricity investors, and increased their awareness about opportunities in the electricity sector abroad. Hence, these entrepreneurs followed investment opportunities, albeit mostly in Turkey's regional neighbourhood. Plant drain of unprofitable natural gas plants or construction of infrastructure and generation plants in foreign countries are in this category.

One of the auxiliary research questions of the study is 'how did neoliberal structuralisation of electricity sector, as a foreign-inspired policy, influence Turkey's domestic energy policy preferences?'. The Chapter 5 revealed that Turkey, regardless of the governments' ideological backgrounds, has a policy learning capacity, and a receptive, pragmatic attitude towards new political economic ideas in order to secure a larger share in the world economy, and to solve the problems at its domestic economy. All respondents agreed with this view, during the interviews. In this sense, electricity liberalisation was a timely prescription for Turkey since it relieved the state from one of the heaviest financial burdens on the public purse by opening a new and promising area for local and foreign private sector investments. For this reason, the perfect match

between external and internal political economic agendas accelerated the liberalisation.

Nevertheless, after 2016, the reform process stagnated more evidently; this falls within the boundaries of another auxiliary research question which is 'why did neoliberal structuralisation of the Turkish electricity sector stagnate, despite constant independent variable?'. The Chapter 6 demonstrated that the financial burden on the sector which arose for a variety of economic problems, could not be reflected to the consumers overtly due to unsuitable domestic political environment; therefore, was shouldered by the state covertly through some mechanisms destroying the achieved level of liberalisation. Naturally, this covertly shouldered financial burden was reflected to the tax payers, ultimately. Here, the argumentation connects to the intervening variable, internal factors. When the perceived political costs of maintaining or advancing the process exceed the expected benefits, the policy makers prioritise their own political interests, survival, to the detriment of electricity liberalisation. This, also shows that Turkey has a certain bargaining capacity in the global power structures in accordance with its own domestic conditions; "the end result is not totally independent of the actors' bargaining strategy and position" in the outcomes emerged at the international political economy, as Tayfur argues.<sup>697</sup>

Electricity liberalisation seems successful in terms of privatisation in Turkey. As figures in chapters five and six showed, Turkey managed an electricity privatisation around \$25 billion and this corresponds to more than one third of the aggregate privatisation revenues of Turkey. At the same time, the share of public electricity investments decreased radically thanks to liberalisation in the country (see Chapter 5.2.1). In this sense, Turkey converges with the successful global examples. If *raison d'être* of electricity liberalisation is decreasing end user prices through efficiency gains and competition, Turkish example does not

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<sup>697</sup> Tayfur, "Susan Strange Goes to the Eastern Mediterranean", pg. 4.

seem successful. Karahan and Toptaş founded that expected reductions in the wholesale and end user electricity prices could not be realised following privatisation of the electricity distribution companies in Turkey.<sup>698</sup>

This thesis made three original contributions to the concept of structural power by explaining the drivers of change in the energy structure, unveiling the existence of a global energy structure which Susan Strange deems an arbitrary selection, and by unearthing how causation mechanisms work in shaping countries' domestic energy policy preferences under structural influences. By benefiting from Strange's conception of structural power, the study has exploited the electricity liberalisation process in Turkey as a case study, in order to reveal and understand the mechanisms underlying how change occurs in a specific global structure of power. The thesis claims that the 'structure' in the energy structure is characterised by organising principles in subsectors and these principles organise the specific framework how things shall be done, in a narrower sense than Strange has drawn. Therefore, a power structure may include various organising principles for different subsectors of it. For example, regarding the energy structure, electricity sector, as a subsector in the energy structure, has been bound by the developments in the superior structures, such as finance and knowledge. Similar to the organising principle of the electricity sector or the established rules in the oil sector, there can be an organising principle for the natural gas or LNG sectors as well. This also confirms the second contribution, existence of a global structure in the field of energy. The existence of a global energy structure in the same sense with the other power structures has been showed in Chapter 3, by indicating global patterns in electricity liberalisation. However, due to explained political economy features of energy and non-hierarchical regime complexity in this field, the global energy structure remained a looser one.

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<sup>698</sup> Hatice Karahan and Mehmet Toptaş, "The effect of power distribution privatization on electricity prices in Turkey: Has liberalization served the purpose?", *Energy Policy*, Vol. 63 (2013), pg. 618.

In fact, exploitation of electricity as a political commodity is an understandable situation, according to the public choice theory, as mentioned earlier. Especially in countries like Turkey, where state has a distributive character in a system with only a questionable degree of rule of law, and weak institutional traditions, politicians have more capability and incentive to exploit electricity as a political commodity, and to distort the liberalisation programme, whenever they need. If Robert Putnam's "two-level game" metaphor, with which Susan Strange would not disagree, is applied to this case, politicians' tendency to exploit electricity for their own political goals, seems even more reasonable.<sup>699</sup> This can be a future study. Resultantly, after all these explanations, it converges with the main argument of the thesis again: Although the global power structures create a tendency in Turkey to adapt to changes in the energy structure, the pace and attribute of the adaptation becomes a hybrid and non-linear one due to distorting effects of Turkey's internal economic and political factors.

As an alternative analytical framework, the policy paradigm shift perspective, in the way Hall uses, can be benefited from, since the entire Turkish electricity liberalisation is a perfect example for it. A policy paradigm, similar to Kuhnian approach, is a general accepted framework in which policies are designed, communicated, and implemented around certain ideas; and policy paradigm shift expresses a three-step evolution in the policy framework. The first order of change in the framework is "likely to display the features of incrementalism, satisficing, and routinized decision making that we normally associate with the policy process". Later, "the second order change and the development of new policy instruments may move one step beyond in the direction of strategic action." Lastly, the third order change "is likely to reflect a very different process, marked by the radical changes in the overarching terms of policy discourse associated with a 'paradigm shift'".<sup>700</sup> In the Turkish example,

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<sup>699</sup> Robert D Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games", *International Organization*, Vol. 42, No. 3 (1988), pp. 427-460.

<sup>700</sup> Hall, "", pp. 279-280.

adoption of Law number 3096 corresponds to the first order change, since it demonstrates characteristics of incrementalism (see Chapter 4.3.1). Following it, creation of the Build-Operate contracts for private investors in 1997, with law number 4283, fit to the second order change, not only as a new policy instrument, but also as advancement in the restructuring one step ahead towards the ultimate strategic target: liberalisation. The introduction of electricity liberalisation with law number 4628 constitutes the last, ultimate, third order change in the policy paradigm shift (see Chapter 4.3.2).

Naturally, more studies are needed to grasp a full-scale understanding of the story of electricity liberalisation both in Turkey and in the world. More studies will definitely deepen our interpretation not only about Turkey, but also about global dimensions of neoliberalism and global wave of neoliberal structuralisation in the electricity sector. Future attempts may prefer conducting research by including intra-country or inter-country comparisons in a much more detailed way. This study only attempted to sharpen our understanding on the roots of liberalisation in the electricity sector, drivers of change in the global energy structure, and the correlation between independent and intervening variables influencing the Turkish electricity market liberalisation. Future researchers may, for example, compare liberalisations in different network dependent sectors such as electricity and natural gas within the same country; or may opt for keeping their research agenda limited on the electricity sector, while widening their geographical criterion to compare the electricity sectors of the different countries. Another research topic may be about the relationship between Turkey's privatisation revenues and social transfer spending. This is important, because at the first glance, it seems that regardless of electricity prices, the electricity liberalisation itself helped government to protect its popular base through increasing social transfers. Especially the massive privatisation programme played a pivotal role by providing the treasury with large financial resources to boost social transfer spending. Thanks to broadening share of social spending in the general budget, the government could sustain the electoral support of large masses, particularly

that of lower socio-economic layers in the society. This could be a research topic as well.

Another issue regarding the ongoing global liberalisation processes is how to satisfy the worries about the security of supply. The neoliberal structuralisation leaves the selection of the source of energy into the hands of private investors which seek maximisation of profit. On the other hand, policy makers have to deal with the same topic from a political angle. In other words, there is a complete dissimilarity between the two sides. Although there is a vast literature about how to provide energy security in liberalised markets, assessment of this aspect of liberalisation seems not mature in the literature yet.<sup>701</sup> Particularly for natural gas, if the country is an import-dependent one, the source country of the gas and the route of it become a strictly political issue, rather than a pure subject of economic feasibility. Luckily, when it comes to electricity, this is less so. The main reason for this is the difference between the two types of energy; natural gas is a primary energy, while electricity is a secondary type of energy. That is to say, natural gas itself is energy, but electricity has to be produced by converting another type of energy. Therefore, even in the countries which are not fossil fuel rich, there are substantial resources for indigenous electricity generation. Since this study is not about energy security, the topic has not been exemplified in detail. Nevertheless, as Turkey better adaptates to New Green Deal of the EU during the EU accession negotiations, the country's energy security risks created by import dependency will decrease as well. However, this time, due to high capital expenditures of renewable energy plants, financial security risks borne by the country's weak position in the global financial structure may constitute some troubles.

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<sup>701</sup> Rafael Leal-Arcas, "How Governing International Trade in Energy Can Enhance EU Energy Security", *Renewable Energy Law and Policy Review*, Vol. 6, No. 3 (2015), pp. 202-219; Tomas Maltby, "European Union energy policy integration: A case of European Commission policy entrepreneurship and increasing supranationalism", *Energy Policy*, Vol. 55 (2013), pp. 435-444; Andreas Pointvogl, "Perceptions, realities, concession — What is driving the integration of European energy policies?", *Energy Policy*, Vol. 37 (2009), pp. 5704-5716.

Consequently, the stagnation of electricity restructuring in Turkey was, first and foremost, correlated with the changing domestic economic conditions, despite continuing supportive character of external economic factors. In this sense, the occurrence of stagnation in the process proved the determining role and superior position of internal economic factors to the external economic factors, on the pace of reform, in case that there was no acute need for foreign economic support. In other words, in the absence of a foreign structural pressure, the Turkish governments could adjust the momentum of reform freely by considering their own domestic agenda. Also, in the absence of foreign pressures, the Turkish governments felt freer in adjusting the pace of reform according to their domestic political needs. However, when a change in the organising principle of a global power structure occurs in a way to create spontaneous pressures on the countries in the structure and to alter the range of options open to countries, different countries with different features are affected at different degrees from this change. Nevertheless, by moving from the Turkish example but as a general pattern, it can be said that the developing countries opt for adapting themselves to the changes, both to protect their status in the global power structures, and to benefit from opportunities in the world economy.

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## **APPENDICES**

### **APPENDIX A: LIST OF INTERVIEWEES**

Alparslan Bayraktar, Deputy Minister, ETKB, January 5, 2019, Ankara.

Anonymous former Turkish high-rank energy bureaucrat from ETKB, 2019, Ankara.

Anonymous former Turkish high-rank energy bureaucrat from EPDK, 2020, Ankara.

Anonymous Turkish official from ETKB, 2020, Ankara.

Anonymous Turkish energy official from EPIAŞ, 2019, Ankara.

Anonymous Turkish private energy consultants, 2019-2020, Ankara.

Barış Sanlı, Advisor to the Minister, ETKB, October 31, 2019, Ankara.

Fatih Yazıtış, Head of Market Supervision Committee, February 5, 2020, EPIAŞ, Ankara.

Hasan Köktaş, Turkish Energy Foundation, August 10, 2017 and March 3, 2020, Ankara.

Kenan Sitti, former bureaucrat from EPDK, October 31, 2019, Ankara.

Metin Başlı, T&B Energy Consulting, November 20, 2019, Ankara.

Necmi Odyakmaz, Enerjisa, March 10, 2018, Ankara.

Obahan Obaoğlu, Association of Electricity Generators, November 15, 2019, Ankara.

Oytun Alıcı, Association of Distribution System Operators, November 5, 2019, Ankara.

Yusuf Tülek, T&B Energy Consulting, November 19, 2019, Ankara.

## APPENDIX B: CURRICULUM VITAE

**SERHAN ÜNAL**

**Born:**

**Contact**

E-Mail:

Website: <http://serhanunal.blogspot.com.tr/>

Social Media:

### **Faculty Member**

Ankara Yıldırım Beyazıt University, Department of International Relations,  
Ankara, Turkey.

### **Research Director**

Turkish Energy Foundation (TENVA), Ankara, Turkey.

## **EDUCATION**

**2002 – 2006**

**Mehmet Emin Resulzade Anatolian High School**

**Ankara**

**2006 – 2011**

**Bilkent University**

**Ankara**

- BA in International Relations
- GPA: 3.59 / 4.00
- Full Scholarship

**2010 February – June**

**University of Tartu**

**Tartu**

- Erasmus Exchange Student at Euro College



**2011 – 2013**

**Middle East Technical University**

**Ankara**

- MSc. in International Relations
- Thesis: “Europeanisation of the Turkish Energy Sector: A Case Study on the Electricity Market”

**2013 – 2021**

**Middle East Technical University**

**Ankara**

- Department of International Relations
- Thesis: “International Political Economy of Neoliberal Structuration of Turkish Electricity Market”

## **RESEARCH INTERESTS**

International Political Economy, Energy in International Relations, Political Economy of Natural Resources, Turkish Foreign Policy, Theories of International Relations, Environmental Politics in International Relations, Development Studies.

## **PROFESSIONAL EXPERIENCE**

**2011 February**

**Undersecretariat of Treasury**

**Ankara**

- Internship Programme

**2011 September – ...**

**Ankara Yıldırım Beyazıt University**

**Ankara**

- Research Assistanship, Department of International Relations

**2014 April – ...**

**Turkish Energy Foundation (TENVA)**

**Ankara**

- Senior Researcher

**2015 January – 2017 January**

**Middle East Technical University**

**Ankara**

- President of METU Student Council (2015 – 2017)

**2012 - 2015**

**Ankara International Relations Graduate Symposium**

**Ankara**

- Department of International Relations, Ankara Yıldırım Beyazıt University
- Organiser & Co-Organiser

**PUBLICATIONS**

My publications can be reached at my personal blog:  
<http://serhanunal.blogspot.com.tr/>.

**ARTICLES**

**Inter/National Indexes**

- Serhan Ünal, “Potential Effects of An Energy Transition on Turkish-Russian Relations”, *Review of International Law and Politics*, Vol. 36, No. 9 (2013), pp. 73-94.
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- Serhan Ünal, "Bir Yumuşak Güç Unsuru Olarak Çevrecilik", *9.Lisansüstü Konferansı*, 3 December 2011, İstanbul, Turkey.
- Serhan Ünal, "Yükselen Türkiye", Erciyes University, 26-28 April 2012, Kayseri, Turkey.
- Serhan Ünal, "Foreign Policy Workshop", Public Diplomacy Coordinatorship & Artuklu University, 7-10 June 2012, Mardin, Turkey.
- Serhan Ünal, "Entropy in the Arab World", Yalova University, 2-3 May 2013, Yalova, Turkey.
- Serhan Ünal and Eyüp Ersoy, "International Silkroad Congress and 10<sup>th</sup> ACTR Conference", 27-29 October 2013, İstanbul, Turkey.
- Serhan Ünal, "International Turgut Özal Congress on Business, Economics and Political Science", Turgut Özal University, 1-3 November 2013, Ankara, Turkey.
- Serhan Ünal, "Küresel Diplomasi: Siber Uzay ve Terörizm", Uludağ University, 23-24 December 2013, Bursa, Turkey.
- Serhan Ünal, "First Sarajevo Conference on Global Crisis and Countries in Transition", International Sarajevo University, 19-22 June 2014, Sarajevo, Bosnia Herzegovina.
- Serhan Ünal, "International Thorium Energy Conference", International Thorium Organisation, 12-15 October 2015, Mumbai, India.
- Serhan Ünal, "Eurasian Summer School", Presidency For Turks Abroad and Related Communities, 19-26 September 2016, Various Cities, Kazakhstan.

## LANGUAGES

Turkish: Native Language

English: Proficient

Russian: Basic



## APPENDIX C: TURKISH SUMMARY / TÜRKÇE ÖZET

Enerji, uluslararası ilişkilerde önemi ve ağırlığı giderek artan bir konu olarak çalışılmaktadır. Enerji, sıklıkla kullanılan anonim bir deyişle, ekonominin kanıdır; her yere hayat verir. Gerçekten de, enerji olmaksızın, ne yapıcı ne de yıkıcı bir faaliyette bulunulabilir. Tam da bu yüzden Susan Strange, enerjinin, toprak, emek ve sermayeye (ve teknolojiye) ek olarak beşinci üretim faktörü olduğunu iddia etmiştir. Mevcut durumda, dünya enerji sistemi, karbon yoğun ve kamu ağırlıklı bir yapıdan, düşük karbonlu ve özel sektör ağırlıklı bir yapıya evirilmekte ve bu sebeple değişim süreci, bir 'çifte dönüşüm' görünümü taşımaktadır. Eş anlı ilerleyen bu çifte dönüşümün özünde, çevreci ve yenilenebilir kaynaklardan elde edilen enerjinin öncelenmesi ve piyasa odaklı reformların gerçekleştirilmesi vardır. Dünyanın birçok farklı bölgesinde, farklı hızlarla da olsa devam eden bu süreçte, bazı ülkeler, dönüşümün çevreci yönlerine, bazı ülkeler ise piyasa odaklı yönlerine daha çok önem vermektedir. Her şekilde, bu çifte dönüşüm yapısal bir nitelik taşımaktadır ve elektrik sektöründe daha ziyade serbestleşme olarak kendini göstermektedir.

Bu çalışmanın özünde, elektrik serbestleşmesinin yapısal bir dönüşüm olduğu ön kabulü vardır ve iki temele dayanmaktadır. İlki, elektrik serbestleşmesinin küresel niteliği, ikincisi ise elektrik sektöründe yeni bir düzenleyici ilkenin zuhurudur. Dönüşümün küresel niteliğini, bir dünya haritası üzerinde kolayca tespit etmek mümkündür. Dünyanın farklı bölgelerinden birçok ülkenin, elektrik sektörlerini kısmen ya da tamamen serbestleştirmeyi seçmesi ve elektrik serbestleşmesinde yayılımın coğrafi çeşitliliğe sahip olması, farklı nitelikteki ülkelerin aynı politikayı tercih etmelerinde yapısal bazı itkiler olduğunun bir alametidir. Çalışma boyunca, politika yayılma mekanizmalarının detaylı bir analizi yapılmaktadır. Teknolojik gelişmelerden ideolojik değişimlere kadar bazı çeşitli etkenler vesilesiyle oluşan, elektrik sektöründe yeni bir düzenleyici ilkenin zuhuru ise, sektördeki düşünüş ve iş yapış usullerini yeniden şekillendirmiştir. Teknolojik gelişmeler, bu süreçte, ölçek ekonomilerini düşürerek ve gerçek zamanlı piyasa etkileşimlerini mümkün kılarak etki ederken, ideolojik değişimler, gelişmiş ülkelerden başlayarak, elektrik sektöründe yeni finansal ve yönetim uygulamaları yaratarak süreci etkilemiştir. Bütün bunların bir bileşkesi olarak, elektrik sektöründe yeni bir düzenleyici ilke zuhur etmiştir. Elektrik sektörünün düzenleyici ilkeleri, tarihsel bir siyasi ekonomi perspektifiyle, ilgili bölümlerde incelenmektedir.



Esasında, elektrik serbestleşmesi, küresel siyasi ekonomide geniş çaplı değişiklikler doğuran bir zincirleme reaksiyonun sonucudur. Zincirleme reaksiyonun ilk basamağında, küresel neoliberal dönüşüm vardır. Geniş çaplı bir siyasi ekonomik dönüşüm ve neoliberal politika ve değerlerin küresel ölçekte yayılmasıyla, 1980'lerden itibaren neoliberalizmin meşruiyeti ve belirleyici rolü artmıştır. Zincirleme reaksiyonun ikinci basamağında, küresel finans ve bilgi yapılarındaki dönüşüm vardır. Küresel sistemin önde gelen aktörlerinin finans ve bilgi yapılarında neoliberal değer ve politikaları öncelmesi, diğer aktörleri de uyum göstermeye sevk etmiştir.

Küresel güç yapılarının neoliberal dönüşüme koşut olarak değişmeye başlaması, birincil güç yapılarının, ikincil yapılar üzerindeki etkili konumundan ötürü, enerji yapısı gibi ikincil güç yapılarında da değişimler yaşanmasına neden olmuştur. Bu sebeple, zincirleme reaksiyonun üçüncü basamağında, elektrik sektöründe yeni bir düzenleyici ilke ortaya çıkmış ve bu yeni düzenleyici ilkeyle, elektrik serbestleşmesi hem gelişmiş hem de gelişmekte olan ülkelere, farklı etkiler sebebiyle olsa dahi, yayılmıştır. Türkiye'deki elektrik serbestleşmesi de, bu küresel zincirleme reaksiyonun ulusal ölçekteki bir yansıması ve sonucudur. Bu çalışma da, zincirleme reaksiyonun bu nihai sonucundan hareketle, sürecin temel çerçevesini adım adım incelemektedir.

Çalışmada, neoliberalizme ve serbestleşmeye müspet ya da menfi herhangi bir değer yüklenmemekte, elektrik serbestleşmesi tercihi ilkesel temelde ne desteklenmekte ne de eleştirilmektedir. Çalışma, serbestleşme kavramını teorik ve pratik boyutlarıyla kavramsallaştırmakta ve enerji sektörüyle bağını kurarak onu Türkiye'deki elektrik serbestleşmesi uygulamalarıyla örneklemektedir.

Serbestleşme kavramı, ne teorisyenler ne de pratisyenler için yeni bir kavramdır. Planlama geleneğinin altın çağını müteakip, inisiyatifin piyasalara devri, 1970'lerin sonu ve 1980'ler boyunca iktisadi gündemin ana ilkesi haline gelmiştir. Bu yönelim daha sonra dünyanın çeşitli bölgelerinde ve çeşitli sektörlerde de uygulanmış olmasına rağmen, Soğuk Savaş'ın kapitalist ülkelerin zaferiyle sonuçlanmasının ardından, hız kazanmıştır. Bu noktada serbestleşmenin ne olduğu sorusu cevaplanmalıdır. İktisadi açıdan, dar anlamda serbestleşme, kamu hakimiyetinde olan sektörlerin özel müteşebbislere açılması anlamını taşır. İlk önce, devlet müdahalesi, devlet varlıklarının özelleştirilmesi, fiyat düzenlemelerinin tedrici olarak kaldırılması veya sınırlandırılması ve düzenleyici riski kontrol altında tutma gibi yollarla azaltılmalıdır. İkinci olarak, piyasaya yeni giren oyuncuların, büyük ve yerleşik oyunculara karşı korunması için uygun bir atmosferin sağlanması gereklidir. Yeterli oyuncu olmaksızın, rekabetin gerçek anlamda sağlanması mümkün

değildir. Bu standart usul, enerji sektöründen önce hava ve demir yolları, iletişim altyapısı ve tütün/alkol piyasası gibi alanlara da uygulanmıştır.

Elektrik sektörü serbestleşmesi de, genellikle kamuya ait doğal tekellerin ve dikey bütünleşik şirketlerin yaygın olduğu şebeke temelli sektörlerin serbestleşmesine benzemektedir. Bu sebeple, böyle sektörlerdeki serbestleşme reçetesi, devlet varlıklarının özelleştirilmesiyle özel sektör rekabetine alan açılması, yeni yatırımların lisanslanması, ve en önemlisi, fiziki altyapıya üçüncü tarafların erişimi gibi başlıkları içermektedir. Böylece, elektrik sektörü de şebeke temelli olduğu ve doğal tekel özellikleri gösterdiği için bir taraftan benzer sektörlerle benzeşirken, enerji sektörünün siyasi ve stratejik önemi sebebiyle de, diğer sektörlerden ayrılmaktadır. Dahası, elektrik sektörü açısından, arz ve talep gerçek zamanlı olarak her an dengelenmek zorunda olduğu için, merkezi bir sistem işletmecisi gerekmektedir ve bu da, serbestleşme için bir üst sınır oluşturmaktadır.

Kısaca, elektrik serbestleşmesinin, küresel finans ve bilgi yapılarındaki değişim tarafından tetiklenen zincirleme reaksiyonun, enerji sektöründeki yansımalarının bir sonucu olduğu iddia edilebilir. Bu çalışma, yukarıda kabaca bahsedilen iki temele dayanarak, Britanyalı akademisyen Susan Strange'in yapısal güç kavramından istifade etmektedir. Küresel neoliberal dönüşüm ve onun küresel finans ve bilgi yapılarındaki yansımaları, enerji yapısı penceresinden çalışılmaktadır.

Zikredilen çerçevede bu tez, Türkiye'deki elektrik sektörünün dönüşümüne, uluslararası siyasi ekonomi penceresinden odaklanmaktadır. Serbestleşmenin başlamasında etkili olan dış ve iç etkenlerin etkileşimleri ve kök sebepleri analiz edilmekte, serbestleşme sürecinin ilerlemesine ve tamamlanmasına mani olan engeller araştırılmaktadır. Çalışmanın, hangi kıstaslara dayanarak Türkiye'deki elektrik serbestleşmesini duraklamış ve tamamlanamamış olarak tanımladığı, ilgili kısımlarda açıklanmaktadır.

Bazıları için bu konu, ilk bakışta uluslararası siyasi iktisatla ilişkili görünmeyebilir. Ancak, serbestleşme sürecini önce tetikleyen, ardından da duraklamasına sebep olan etkenler, küresel güç yapılarının doğası ve değişimi, küresel neoliberal dönüşüm, enerjinin uluslararası siyasi ekonomisi ve gelişmekte olan ülkelerin, devlet ve devlet dışı aktörlerin etkileşimlerini kurduğu uluslararası siyasi ekonomi yapılarındaki yeri hakkında çok şey öğretmektedir. Bu sebeple, elektrik serbestleşmesi, sürecin başlamasına ve duraklamasına sebep olan siyasi ve iktisadi etkenlerin incelenmesiyle,

argümanların örneklenmesi için kullanılmaktadır. Diğer bir deyişle, bir sektördeki iç politika tercihinin ulusal/uluslararası siyasi ekonomik ve yapısal belirleyicileri keşfedilmektedir. Böylece, gelişmekte olan bir ülkedeki elektrik serbestleşmesi sürecinin ulusal ve küresel siyasi ekonomik özelliklerine ve uluslararası sistemin dönüştürücü güç yapılarına teorik bir yaklaşım sergilenmektedir.

Serbestleşme süreci iktisat, siyaset bilimi ve işletme alanlarının konusuna giriyor gibi görünmesine karşın, birçok sebeple ülkelerin dış siyasi ve ekonomik ilişkilerine de bağlıdır ve ülkelerin dış ve iç ekonomik ilişkileri arasında da doğrudan bir bağ vardır. Bu durum, Türkiye gibi gelişmekte olan ülkeler için bilhassa böyledir. Temel olarak, Türkiye'nin, küresel ekonomideki gelişen ülke pozisyonu sebebiyle ülke, sistemdeki merkez ülkelerle ekonomik ve siyasi uyuma ve küresel yatırımcıların ve kredi piyasalarının beklentilerine göre şekillenmekte olan, dış finansal desteğe bağımlıdır. Neoliberal yeniden yapılandırmanın elektrik sektöründeki iş yapış biçimlerini küresel ölçekte yeniden şekillendirmesiyle, Türkiye gibi ülkeler de, finansmana erişebilmek için, elektrik sektörlerini bu yeni düzenleyici ilkeye uyumlulaştırma ihtiyacı hissetmişlerdir. Yani, Türkiye'deki elektrik serbestleşmesi, çok ihtiyaç duyulan dış finansal kaynakların ülkeye aralıksız akışını temin etmek için, ülkenin küresel finansal sisteme bir uyum çabasıdır.

Finansal yapıya benzer şekilde, küresel bilgi yapısı da, Türkiye'yi, Soğuk Savaş'ın ardından merkez ülkelerin belirlediği bir gündem çerçevesinde, elektrik piyasası reformlarına sevk etmiştir. Piyasa odaklı anlayış her ne kadar 1980'lerde yükselse de, özellikle Soğuk Savaş'ın bitişinden sonra tamamen muzaffer hale gelmiştir. Bir taraftan, Uluslararası Para Fonu (IMF), Dünya Bankası ve Ekonomik İşbirliği ve Kalkınma Örgütü (OECD) gibi uluslararası kurum ve kuruluşlarca teşvik edilen standart ve tek tipçi reçeteler, Türkiye ve benzer evsattaki ülkeleri elektrik serbestleşmesine sevk etmiştir. Diğer taraftan ise, zamanın akademik literatürü ve uluslararası danışmanlık firmalarının ve derecelendirme kuruluşlarının, portfolyo yatırımcıları ve çokuluslu şirketler tarafından dikkate alınan raporları, hep aynı neticeye işaret etmiştir: Elektrik piyasalarının serbestleştirilmesi. Türk karar alıcıları da, hem elektrik piyasası serbestleşmesinin faydaları hakkındaki bilgilerden etkilenerek, hem de uluslararası finansal desteğe ve doğrudan yatırıma olan ihtiyacın farkında olarak, 2000'li yılların başında elektrik serbestleşmesine yönelmişlerdir.

Türkiye'nin elektrik sektörünü serbestleştirme çabaları ve ülkenin küresel ekonomiyle olan yapısal ilişkisi, reform ihtiyacını artıran etkenler incelendiğinde daha net görülür. Bu yüzden, serbestleşmeyi gerektiren etkenler,

dış iktisadi, dış siyasi, iç iktisadi ve iç siyasi etkenler olarak dört grupta incelenmektedir. Temel olarak, destekleyici dış ve iç iktisadi etkenler, şanslı bir zamanlamayla tesadüf etti ve uygun dış ve iç siyasi etkenler ile güçlendirildi. Buna karşılık, bütünüyle müspet olan bu gidişat, iç siyasi hareketlilikle de beslenen kötüleşen iç iktisadi görünüm sebebiyle, duraklama dönemine doğru aşınmıştır. Böylece, Türkiye'deki elektrik sektöründe tam serbestleşme, belirli bir olgunluğa erişilmiş olsa dahi, tamamlanamamıştır.

Türkiye'de elektrik sektöründe serbestleşmeyi gerektiren ana sorun, sektörün devasa yatırım ihtiyacı olmuştur. Kamu bütçesi açısından, elektrik sektöründeki yatırım ihtiyacı o kadar yüksek boyutlarda olmuştur ki, farklı ideolojik arka planlara sahip hükümetler hep aynı sektöre daha fazla özel yatırımcı çekme fikrinde birleşmişlerdir. Bu yöndeki ilk adımlar 1980'lerin ortasında atılsa da, plansızca ilerleyen reform çabaları, geniş bir yapılandırmaya dönüşmemiştir. Nihayetinde, neredeyse 20 yıllık plansız bir reform döneminden sonra, tam anlamında serbestleşme ancak 2001 yılında başlatılabilmektedir. Yine de, 2016 yılından başlayarak, serbestleşme çabaları, belirginleşen finansal sürdürülebilirlik riskleri ve belirsiz siyasi atmosfer sebepleriyle duraklamış ve hatta bazı alanlarda gerilemiştir.

Türkiye'deki elektrik serbestleşmesi, küresel neoliberal dönüşümün bir yansıması olduğu için, dış iktisadi ve siyasi etkenler de süreç üzerinde etkili olmuştur. Bu yüzden, dış iktisadi ve siyasi etkenler sürecin başlatılmasına ciddi etki yapmıştır. Türkiye'nin, elektrik piyasasını, bağımsız şekilde düzenlenen, özel sektör sahipliğine dayanan ve rekabet temel bir hale getirme çabaları, dış alemde uygun bir atmosfere denk gelmiştir. Dış iktisadi sahada, uluslararası finansal kuruluşlar, sadece finansal ve bilgi desteği vererek Türkiye'yi reforma sevk etmek açısından değil, aynı zamanda kriz zamanlarında zorlayarak da önemli rol oynamıştır. Bu kuruluşların yaptıkları katkıların yanı sıra, artan doğrudan yabancı yatırım miktarı ve küresel para piyasalarındaki düşük faiz oranları da sürece olumlu etki yapmıştır. Dış siyasi sahada, uluslararası kurumlar, Türkiye'nin hamlelerini ve kararını, olumlu örnekleri sergileyerek ve sürecin maliyetlerini çeşitli açılardan düşürerek yardımcı olmuştur. Bu kurumlar arasında Avrupa Birliği (AB), enerji faslını Türkiye'nin birliğe üyelik müzakerelerinde bir şart olarak tutarak ve Türk hükümetlerine karlı fırsatlar yaratarak bilhassa müspet bir etki yapmıştır.

Elektrik serbestleşmesi fikri, kamu tarafının mevcut ve müstakbel yatırım ihtiyaçlarını karşılamakta zorlanmasından dolayı, elverişli dış iktisadi ve siyasi etkenlerce de desteklenerek, hükümetler seviyesinde çok daha güçlü bir destek bulabilmiştir. Diğer taraftan, özel sektör yatırımcılarının ve bankaların elektrik

sektörüne yatırım yapma hususunda hevesli oluşları da, sürece özel sektör aktörlerinin katılımını hızlandırmıştır. Bürokrasi ve sivil toplumda, elektrik serbestleşmesine muhalif birtakım grupların olmasına rağmen, hükümetler seviyesindeki sürekli destek sayesinde süreç, ilerleme şansı bulmuştur.

Yaklaşık 15 yıl boyunca büyük ölçüde başarıyla ilerleyen bir serbestleşme sürecinden sonra, özellikle iç iktisadi koşullar değişmeye başlamıştır. Dış iktisadi sahada, kendini daha ziyade azalan yabancı yatırımlar ve artan borçlanma maliyetleri şeklinde gösteren koşullara rağmen, uluslararası finansal kuruluşlar sürece ve ülkeye olan desteğini sürdürmüştür. Dahası, batılı finansal kuruluşların sıkı çevresel şartları sebebiyle Türkiye, özellikle kömürlü termik santral projelerinde, giderek artan şekilde batı dışı kaynaklara yönelmeye başlamıştır. Dış iktisadi koşullardaki nispi bozulmalara rağmen, AB ve diğer uluslararası kurumların dış siyasi etkileri tamamıyla destekleyici ve müşevvik kalmaya devam etmiştir.

Yeniden yapılandırma sürecini diğer her şeyden daha çok bozan şey, dahili iktisadi şartlar olmuştur. İç iktisadi sahada, azalan talep artışı ve aşırı iyimser elektrik tüketimi tahminleri arz fazlasına neden olmuştur. Aynı zamanda, Türk Lirası'nın (TL) değer kaybı ve Türk ekonomisindeki yavaşlama, genel iktisadi koşulların bozulmasına yol açmıştır. Bu zincirin bir uzantısı olarak, elektrik değer zincirinin her basamağındaki piyasa oyuncuları artan şekilde kamu desteğine ihtiyaç duymuş ve çeşitli teşvik ve piyasa dışı mekanizmalar, serbestleşme sürecini menfi olarak etkilemiştir. Eğer gerekli adımlar zamanında atılabılsaydı, serbestleşme sürecindeki tıkanmadan kaçınılabılırdi. Ancak, iç siyasi atmosferdeki şartların uygun olmaması ve bilhassa ülkede seçimlerin artan sıklığı sebebiyle, hükümetlerin, rasyonel politik aktörler olarak, öncelikleri değişmiş ve bu da gereken adımların piyasa dinamikleri içinde atılmasını engellemiştir.

Türkiye'deki elektrik piyasasının serbestleşme sürecini, uluslararası siyasi ekonomi perspektifinden ele alan bu tezin temel araştırma sorusu, küresel güç yapılarındaki değişimlerin, Türkiye'nin iç enerji siyaseti tercihlerini neden ve ne kadar etkilediğidir. Tezin ana iddiası ise, küresel güç yapılarının, Türkiye'de, küresel enerji yapısındaki değişimlere uyum gösterme eğilimi yaratıyor olmasına karşın, uyum sürecinin hız ve niteliğinin, Türkiye'nin dahili iktisadi ve siyasi etkenleri sebebiyle hibrid ve doğrusal olmayan bir hale geldiğidir. Dolayısıyla, tezdeki ana bulmaca, dahili etkenlerin, küresel güç yapılarındaki değişimlerin, Türkiye'nin iç enerji siyaseti tercihlerini nasıl etkilediği üzerindeki bozucu etkisinin belirlenmesidir. Çalışma, serbestleşmenin başlamasını gerekli kılan iktisadi ve siyasi etkenler ile, önemli ilerlemeler sonrasında sürecin daha

fazla ilerlemesine engel olan etkenleri incelemektedir. Kısaca, Türk hükümetlerinin, kuvvetli bir yapısal gereklilik durumunda veya muhtemel faydaların algılanan siyasi maliyetleri aştığı durumlarda serbestleşmeyi ilerletmeyi tercih ettikleri söylenebilir.

Çalışmanın bağımsız değişkeni, küresel güç yapılarındaki değişimdir. Çalışma, Susan Strange'in yapısal güç kavramından geniş şekilde faydalanarak, küresel finans ve bilgi yapılarındaki değişimleri ve bu değişimlerin küresel enerji yapısına olan etkilerini incelemektedir. Gerçek hayatta, iktisadi ve siyasi alanların birbirinden ayrılmasının mümkün olmadığını düşünsem de, metodolojik kullanışlılık ve analiz gerekleri açısından, iktisadi ve siyasi alanlar, tezde birbirinden ayrı olarak tetkik edilmektedir. Her alan dış ve iç olarak iki âleme ayrıştırılmakta ve her sahadaki önemli etkenler, dış iktisadi, dış siyasi, iç iktisadi ve iç siyasi etkenler olarak incelenmektedir. Bu sistem, hem başlangıç hem de duraklama safhaları için simetrik olarak uygulanmaktadır. Çalışmanın bağımlı değişkeni, Türkiye'nin iç enerji siyaseti tercihleridir ve elektrik piyasası serbestleşmesi ile temsil edilmektedir. Bu, incelenen etkenlerin, serbestleşme sürecinin gidişatı üzerindeki etkilerini yansıtmaktadır.

Çalışma, bir müdahil değişken de ihtiva etmektedir; ancak bu değişken, tekil bir değişken olmaktan ziyade, daha fazla serbestleşmenin nitelik ve uygulanabilirliğini belirleyen iç etkenlerin etkisinden müteşekkildir ve kabaca, muhtemel faydaların, algılanan siyasi maliyetlere oranına karşılık gelmektedir. Bu oran, hükümetlerin serbestleşme sürecini ilerletme konusundaki kararlarını etkileyen temel unsurlardan biridir. Basitçe, bu oranın birden büyük olduğu durumlar, daha fazla serbestleşmenin yalnız ekonomik olarak değil, siyaseten de yapılabilir olduğu anlamına gelmektedir. Diğer taraftan, bu oranın sıfır ve bir arasında olduğu durumlar, daha fazla serbestleşmenin, ekonomik faydalarından bağımsız olarak, siyaseten yapılamaz olduğuna işaret etmektedir. Bu oran, matematiksel bir işlemten ziyade, bir karar vericinin zihnindeki temel maliyet-fayda analizine karşılık gelmektedir.

Tezin her bölümü, ayrı bir düzenleyici soru etrafında şekillendirilmiştir. İstikşafi, betimleyici, açıklayıcı ve değerlendirci olmak üzere kabaca dört araştırma tipinin olduğu kabul edilirse, bu çalışma, istikşafi, betimleyici ve açıklayıcı bir araştırma niteliği göstermektedir. Metodolojik olarak ise, yüksek seviyede karmaşıklık sergileyen sosyo-ekonomik fenomenlerin en iyi şekilde kavranabilmesi ve tahlil edilebilmesi maksadıyla, karma araştırma yöntemi tercih edilmiştir. Karma yöntem, nicel ve nitel araştırma yöntemlerini bünyesinde birleştirerek, farklı yöntem ve kaynaklardan edinilen bilgilerin, diğer yöntem ve kaynaklarla doğrulanması imkanını genişletmektedir. Veri

toplama yöntemleri açısından bu çalışma, birincil ve ikincil kaynaklardan faydalanmakta ve mümkün olan konulardaki verileri sayısallaştırarak ifade etmeye çalışmaktadır. Birçok istatistikten faydalanmanın yanı sıra, yarı yapılandırılmış mülakatlar ile, elektrik sektörünün çeşitli basamaklarından paydaşların çalışılan konuya olan bakışlarından ve daha önce açığa çıkarılmamış ayrıntılara olan hakimiyetlerinden istifade edilmiştir. Tez, özü itibariyle bir vaka çalışmasına dayandığı için, çalışılan iki parçalı serbestleşme sürecinin karanlıkta kalmış dinamiklerinin, sürecin içindeki pratisyenler ile yapılan yarı yapılandırılmış mülakatlar yoluyla aydınlatılması önem taşımaktadır.

Tez, toplamda, yedi bölümden oluşmaktadır ve her bir bölüm, daha önce bahsedilen zincirleme reaksiyonun ayrı bir basamağına odaklanmaktadır. Giriş bölümünü takip eden, “Yapısal Bir Dönüşüm Olarak Serbestleşme” başlıklı ikinci bölüm, serbestleşme kavramının ne anlama geldiği hususuna odaklanarak başlamaktadır. Bu bölümün düzenleyici sorusu, neoliberal dönüşümün ve enerji serbestleşmesinin evsafının ve bu alanlardaki politika yayılma mekanizmalarının neler olduğudur. Neoliberalizm, liberalizm türlerinin mevcut en yeni ve en etkili türü olduğu için, elektrik serbestleşmesini açıklarken, özellikle tarihsel ve kronolojik açıdan, neoliberalizmi kullanmak daha uygun ve makuldür. Bölüm, neoliberal dönüşümün arkasındaki fikri arka planı açığa çıkarmak için, neoliberalizmin tarihi ve ideolojik kökenlerinin izini sürmekte ve küresel ölçekteki politika yayılma mekanizmalarının önemini de bu çerçeveye entegre etmektedir. Daha sonra ise, serbestleşme kavramının, elektrik sektörü özelinde ne anlama geldiği açıklanarak bölüm tamamlanmaktadır. Bahsedilen zincirleme reaksiyonun birinci ve kısmen de ikinci basamakları, yani, küresel neoliberal dönüşümün ne olduğu ve küresel finans ve bilgi yapıları üzerindeki etkileri, bu bölümde incelenmektedir.

“Enerji Yapısında Yapısal Dönüşüm” başlığını taşıyan üçüncü bölümde, daha sonraki bölümlerde Türkiye’deki elektrik piyasası serbestleşmesinin içine yerleştirileceği teorik çerçeve inşa edilmektedir. Bu bölümün düzenleyici sorusu, yapısal güç kavramının enerji yapısıyla nasıl bir ilişkisi olduğudur. Bölümde, Uluslararası İlişkiler literatüründeki güç kavramına temas edilmekte ve güç kavramının farklı yönleri kısaca incelenmektedir. Ardından, yapısal güç kavramı geniş ve detaylı olarak ele alınmakta ve enerji yapısı üzerinde bilhassa ve ayrıntılı olarak durulmaktadır. Mevcut enerji dönüşümünün neden yapısal bir değişim olarak kabul edilmesi gerektiği, analiz birçok gelişmiş ve gelişmekte olan ülkedeki elektrik serbestleşmesi örnekleriyle zenginleştirilerek, bu kısımda açıklanmaktadır. Bu ülkeler Şili, Birleşik Krallık, Almanya, Japonya, Amerika Birleşik Devletleri, Çin Halk Cumhuriyeti ve Yunanistan olarak seçilmiştir. Neden bu ülkelerin seçildiğine dair açıklama da, ilgili kısımda yer alsa da, kısaca şu şekilde özetlenebilir. Şili, elektrik piyasası serbestleşmesinin ilk kez

denendiği ülkedir. Birleşik Krallık, elektrik piyasası serbestleşmesinin uygulandığı ilk gelişmiş ülkedir. Almanya, kıta Avrupasını ve Avrupa Birliği'nin elektrik piyasası ve enerji politikası alanındaki yönetmelik ve standartlarını temsil etmek bakımından önemlidir. Japonya, dünyanın daha farklı bir bölgesinde ve elektrik alanında kendine has özellikleri olan bir ülke olduğu için seçilmiştir. Amerika Birleşik Devletleri, küresel güç yapılarının, özellikle de dolar temelli finansal yapının merkezi ülkesi olduğu için belirleyici bir niteliğe sahiptir. Çin Halk Cumhuriyeti, hem yükselen bir güç olmak, hem de en yüksek elektrik tüketimine sahip olmak bakımından önem arz etmektedir. Son olarak Yunanistan ise, hem Türkiye'nin Avrupa Birliği üyesi bir komşu ülkesi olduğu, hem de Türkiye ile benzer sosyal ve ekonomik niteliklere sahip olduğu için, incelemeye değer bir örnektir. Küresel çaptaki bu örneklerle bakarak, Türkiye'deki elektrik serbestleşmesi, yapısal dönüşüm çerçevesine daha somut bir şekilde yerleştirilebilmektedir. Bu bölüm, elektrik sektörünün düzenleyici ilkesindeki değişimi yaratan değişim dinamiklerini de analizle bütünleştirerek, zincirleme reaksiyonun ikinci basamağının kalan kısımlarını ve üçüncü basamağı da incelemiş olmaktadır. İkinci ve üçüncü bölümler, tezin teorik omurgasını tesis etmektedir.

“Türkiye'nin Enerji Görünümü” başlığını taşıyan dördüncü bölüm, Türkiye'nin genel enerji görünümüne ilişkindir ve üç kısımdan müteşekkildir. Bu bölümün düzenleyici sorusu, Türkiye'nin enerji, elektrik ve elektrik serbestleşmesi alanlarındaki mevcut görünümünün ne olduğudur. İlk kısım, Türkiye'deki enerji sektörünün genel görünümünden kısa ve öz bir şekilde bahsetmektedir ve sırasıyla kömür, petrol ve doğal gaz sektörlerindeki rezervler, üretim, tüketim, ihracat ve ithalat miktarları hakkında temel ve istatistiki nitelikte bilgileri vermektedir. Bu sayede, bu alt sektörlerin elektrik sektörüyle ilişkilerinin tasvir edilebilmesi ve enerji sektörünün geneline ait önemli sorunların tartışılabilmesi için gerekli zemin oluşturulmuş olmaktadır. İkinci kısım tamamen elektrik sektörüne ayrılmıştır. Bu kısımda öncelikle Türkiye'deki elektrik sektörünün, tarihsel ve istatistiki bir bakış açısıyla analizi yapılmakta, ardından ise sektördeki sorunlar özlü bir biçimde tartışılmaktadır. Üçüncü ve son kısım ise, Türkiye'deki elektrik piyasasının yapısındaki değişimleri incelemektedir. Ülkedeki piyasa yapısı, reform öncesi ve reform süreci olarak ikiye ayrılmakta, bu dönemler boyunca idari ve diğer alanlarda gerçekleşen değişimler ön plana çıkarılmakta ve araştırma zemini, tezin çekirdek bölümlerindeki analizler için hazırlanmış olmaktadır. En önemlisi de, bu çalışmada, neden Türkiye'deki elektrik piyasası serbestleşmesinde duraklama olduğu iddia edildiğine dair izahat bu bölümün son kısmında, duraklamanın göstergeleri başlığı altında verilmektedir. Bu son kısım dışında, tezin bu dördüncü bölümü, genel olarak tartışmacı bir bölüm olmaktan ziyade, betimleyici ve tanımlayıcı bir nitelik arz etmektedir.



“Yapısal Güç ve Türkiye’de Elektrik Piyasası Serbestleşmesinin Başlaması” başlıklı beşinci bölüm, tezin iki çekirdek bölümünden birisidir ve Türkiye’de elektrik piyasası serbestleşmesinin başlangıç dönemini (2001-2015) kapsamaktadır. Bu bölümün düzenleyici sorusu, küresel güç yapılarının, Türkiye’nin elektrik sektörü politikasını, serbestleşme yönünde nasıl ve neden etkilediğidir. Böylece, bu bölüm, dışarıdan mülhem bir politika reçetesi olarak elektrik serbestleşmesinin, Türkiye’nin iç enerji siyaseti tercihlerini neden ve nasıl etkilediği sorusunu cevaplandırmaktadır ve iki kısımdan mürekkeptir. İlk kısım, dış iktisadi ve siyasi etkenlerin etkilerini incelerken, ikinci kısım, dahili iktisadi ve siyasi etkenlerin etkilerini incelemektedir. Bölüm boyunca, küresel finans ve bilgi yapılarından faydalanılmakta ve bunun mütemmim cüzü olarak, dış etkenlerin incelendiği kısımlarda, uluslararası rejim teorisinden istifade edilmektedir. Bu bölümde, bağımsız değişkenin bağımlı değişken üzerindeki etkisi açık bir şekilde tespit edilip incelenebilmektedir. Bu bölüm ve müteakip altıncı bölüm, mezkur zincirleme reaksiyonun dördüncü ve en üst basamağıyla uğraşmaktadır.

“Yapısal Güç ve Türkiye’de Elektrik Piyasası Serbestleşmesinin Duraklaması” başlıklı altıncı bölüm, tezin diğer çekirdek bölümüdür ülkedeki elektrik piyasası serbestleşmesinin duraklama dönemine odaklanmaktadır. Bu bölümün düzenleyici sorusu, küresel güç yapılarının sabit kalmasına rağmen, Türkiye’deki elektrik piyasası serbestleşmesinin neden durakladığıdır. Böylece, bu bölüm, elektrik sektöründeki neoliberal yapılandırmanın belirli bir olgunluğa ulaşmış olmasına rağmen, neden durakladığı ve hatta bazı alanlarda gerilediği sorusunu cevaplamakta ve iki kısımdan oluşmaktadır. İlk kısım, dış iktisadi ve siyasi etkenlerin etkilerini incelerken, ikinci kısım iç iktisadi ve siyasi etkenlerin etkilerini incelemektedir. Bu bölümde, yine finans ve bilgi yapıları analiz edilmekle birlikte, bunları, dış ve iç siyasi etkenleri incelerken, hiyerarşik olmayan rejim karmaşıklığı kavramıyla ve kamu tercihi teorisi ile eşleştirerek kullanmaktadır.

“Sonuç” başlıklı yedinci bölümde, ana iddia tartışılmakta, serbestleşme süreci kendi bütünselliği içinde değerlendirilmekte ve birtakım çıkarımlar yapılmaktadır. Bu son bölüm, elektrik serbestleşmesinin değerlendirilmesi ve Türkiye için çıkarımlar hakkında özelleşmektedir. Elektrik sektöründeki serbestleşme süreci, ikinci bölümde çizilen genel çerçeve, üçüncü bölümde incelenen küresel örnekler ve beşinci ve altıncı bölümlerde tetkik edilen Türkiye tecrübesi ışığında etraflıca tahlil edilmekte ve elektrik serbestleşmesinin farklı ölçek ve konulardaki etkilerine değinilmektedir. Sonraki kısımda, Türkiye’nin enerji siyaseti tercihleri, Türk karar alıcıların elektriği siyasileştirme yönündeki davranış kalıpları ve küresel güç yapılarının, Türkiye’nin iç enerji siyaseti tercihlerini hangi yollar ile etkilediğine dair çıkarımlar yapılmaktadır. Bu yolla,

Türkiye'nin enerji politikası, küresel enerji yapısı, enerjinin siyasi ekonomisi ve küresel siyasi ekonomideki neoliberal dönüşüm hakkındaki çalışmalara bir katkı yapılmış olmaktadır. Çalışma boyunca incelenen bütün etkenler değerlendirildiğinde, serbestleşmenin başlangıç ve duraklama dönemlerine dair şöyle bir durum gözükmemektedir:

| <b>Etkenler / Dönemler</b> | <b>Başlangıç</b> | <b>Duraklama</b> |
|----------------------------|------------------|------------------|
| <b>Dış İktisadi</b>        | Destekleyici     | Destekleyici     |
| <b>Dış Siyasi</b>          | Destekleyici     | Destekleyici     |
| <b>İç İktisadi</b>         | Destekleyici     | Engelleyici      |
| <b>İç Siyasi</b>           | Destekleyici     | Engelleyici      |

Tezin bulgularına dair söylenmesi gereken ilk şey, elektrik serbestleşmesinin uzun tarihinin, Türkiye'nin, enerji alanında politika öğrenme kapasitesi olduğunu göstermiş olduğudur. Mülakat yapılan katılımcılar da, çalışmanın ilgili bölümlerinde, Türkiye'nin böyle bir öğrenme kapasitesi olduğunu, bir tek katılımcı hariç, teyit etmişlerdir. Başarılı öğrenme sürecinde, küresel neoliberal dönüşüm ve neoliberalizmin söylemsel üstünlüğü, küresel finans, bilgi ve enerji yapılarının Türkiye üzerindeki etkileri, uluslararası finansal kuruluşların yapısal uyum programları ve hem Avrupa Birliği gibi enerji dışı hem de Uluslararası Enerji Ajansı gibi enerji odaklı uluslararası kurumların nüfuzları gibi çeşitli etkenler etkili olmuştur. Bütün bu etkenlerin bileşkesi, Türkiye'yi, dışarıdan mülhem serbestleşme politikasını başarıyla ithal edip ilerletme yoluna sevk etmiştir.

1980'lerde başlayan küresel neoliberal dönüşüm ile birlikte, neoliberal politika reçeteleri bütün dünyaya yayıldı ve neoliberalizmin söylemsel üstünlüğü sebebiyle diğer ideolojik yaklaşımların zemin kaybettiği küresel finans ve bilgi yapılarında ekolojik hakimiyeti ele geçirmiştir. Bu ekolojik hakimiyet, enerji yapısının düzenleyici ilkelerinde de değişiklikler yaratmıştır. Bu ortamda, Türkiye de, küresel güç yapılarında sadece kısıtlı seçeneklere sahip diğer ülkeler gibi, finansal kaynakların ülkelerin neoliberal politikalar uygulayıp uygulamadıklarına göre tahsis edildiği uluslararası finansal yapı tarafından, neoliberal politikalar uygulamaya, neredeyse kendiliğinden sevk edilmiştir. Yapısal uyum programları da, politika fonlama stratejileriyle, ülkede neoliberal politikalar uygulanmasının önünü açmıştır. Aynı zamanda, uluslararası finansal yapının belirli politikaları uygulatma etkisine koşut olarak Türkiye, uluslararası rejim ve örgütlerden de çok şey öğrenmiştir. Böylece, elektrik serbestleşmesinden doğan değişim ve işlem maliyetleri, tecrübe aktarımı ve bilgi paylaşımı yoluyla azaltılabilmektedir.

Tezin bir başka çıkarımı, Türkiye'nin politika öğrenme kapasitesi olmasına rağmen, öğrenilen bir politikanın tatbikinin, dahili şartlar ile mahdut olduğudur. Örneğin, dışarıdan mülhem bir politika olarak elektrik serbestleşmesi, yüksek oranda parçalı bir iç siyasi yapıda, yıllardır devam eden devletçi, özelleştirme ve neoliberalizm karşıtı yaklaşımların sert eleştirilerine karşı, bir şekilde meşrulaştırılmak zorunda kalmıştır. Farklı ideolojik kökenlere sahip çok çeşitli hükümetlerin aynı neoliberal reçetede birleşmesi, küresel akımların Türkiye üzerindeki yapısal etkilerini ispatlamaktaysa da, yöneten partilerin iktidardan düştüklerinde, elektrik serbestleşmesine karşı çıkarak neoliberalizm karşıtı seçmenlerin oyunu kazanmaya odaklanması, sorun yaratmıştır. Serbestleşme ve özelleştirme, halk nezdinde temelden ideolojik bir desteğe sahip olmadığı için, neoliberalizm karşıtı yaklaşımlar siyaseten daha karlı olmuştur.

Bu sebeple, elektrik serbestleşmesinin faydalarını devşirebilmek için hükümetlerin çoğu, kademeli ve tedrici bir serbestleşmeyi tercih etmiştir. Tam kapsamlı ve sistemsal bir yeniden yapılandırma ise, 2001 yılındaki ekonomik kriz bir fırsat penceresi açınca da değin mümkün olamamıştır. İktisadi buhran, yerleşik devletçi inanışları sarsıp yok ettiğinde ve güçlü bir tek parti iktidarı yarattığında, tam ölçekli elektrik serbestleşmesini başlatıp ilerletebilmek ve bürokrasi ve sivil toplumdaki kilit noktaları ele geçirebilmek çok daha kolay hale gelmiştir. Yine de, elektrik alanındaki yeniden yapılandırmaya karşı gizli muhalefet, reformlar ilerledikten sonra dahi belirli bir ölçüde devam etmiştir. Bütün bunların gösterdiği üzere reform, küresel ölçekte yapısal etkenlerin varlığına rağmen, iç sahanın uygunluğundan da etkilenmekte ve iç siyasi şartların elverişliliği ile kısıtlanmaktadır. Bu çıkarıma bir destek de, tanımladığı yapısal güç kavramı tezin ana teorik çerçevesi olarak kullanılan ve herhangi bir anda siyasetçilerin uygulayabileceği ve siyaseten uygulanabilir seçeneklerin, yerel şartlarla şekillendiğini söyleyen Susan Strange'den gelmektedir. Bu sebeplerle, öğrenilen bir siyasetin tatbiki, o ülkedeki iç âlemi de hesaba katmadan analiz edilemez.

Teze dair üçüncü bir çıkarım, Türk hükümetlerinin, disipline edici yapısal bir dış faktörün yokluğunda, elektriği siyasi bir meta olarak kullanma eğiliminde olduğudur. Türkiye'deki elektrik piyasası serbestleşmesi tecrübesi de, elektriğin siyasi bir meta olarak kullanılmasına dair birçok örnek içermektedir. Bu eğilimin altında yatan sebebin, Türk siyasetçilerin elektrik serbestleşmesine olan faydacı ve ideolojik olmayan bakış açıları olması kuvvetle muhtemeldir. Küresel güç yapılarının sıklet merkezini oluşturan ve belirleyici güce sahip gelişmiş ülkelerden farklı olarak, Türkiye ve benzer evsafa sahip ülkelerin çoğu, elektrik serbestleşmesini, sağlam ve ideolojik bakış açılarıyla değil, faydacı sebeplerle benimsemişlerdir. Bu sebeple, elektrik sektörünü siyasi amaçlarla kullanma yönünde bir fırsat veya gereklilik belirdiğinde, hükümetler, bu yönde

davranmanın onlara getireceği kısa vadeli faydaları elde etmeye direnmekte, özellikle seçim atmosferindeyken, zorlanmıştır.

Bir taraftan Türk devletinin tarihsel ve geleneksel olarak şekillenmiş refah dağıtım rolü oynayan yapısı, diğer taraftan seçmenlerin beklentisi, elektrik sektörünün iç siyasi amaçlar için istismar edilebilmesine uygun çevreyi yaratmıştır. Fakat, özellikle dış âlemde, Uluslararası Para Fonuyla bir anlaşma gibi, disipline edici bir etken baş gösterdiğinde bu, ya fazladan bir siyasi maliyet ya da cazip bir iktisadi fayda gibi etkenler yaratarak, serbestleşmenin ilerlemesi için gereken zemini hazırlamıştır. Disipline edici etken, bazen dış iktisadi yardıma olan akut ihtiyacı artıran ekonomik krizlerden sonra ülkeye davet edilen uluslararası finansal kuruluşlar, bazen de dış politika alanında bir çıpa olarak Avrupa Birliği'yle olan ilişkiler olmuştur. Böylece, küresel finansal yapının disipline edici gücü veya uluslararası rejimler iç siyasi gündeme kıyasla daha baskın çıktığında, elektrik serbestleşmesi çok daha kolay ve hızlı bir şekilde ilerleyebilmiştir.

Dördüncü olarak, yukarıdaki özet tablodan da yararlanılarak, istikrarlı ve normal zamanlarda, iç etkenlerin dış etkenlere baskın çıktığı çıkarımı yapılabilir. Bu, aynı zamanda, müdahil değişkenin, küresel enerji yapısının düzenleyici ilkesinde bir değişim olmadığı müddetçe, bağımlı değişkeni etkileme kapasitesinin daha yüksek olduğu anlamına gelir. Fakat, örneğin enerji gibi bir küresel güç yapısının düzenleyici ilkesinde bir değişim meydana geldiğinde, dış etkenler çok daha etkili bir hale gelmekte ve ülkenin ilgili alandaki politika tercihleri üzerinde yüksek oranda nüfuza sahip olmaktadır. Aslında, bu durum ne şaşırtıcıdır, ne de Türkiye'ye özgüdür. Strange, ilgili uluslararası siyasi ekonomi literatürünü güzel bir şekilde özetleyerek, belirli bir zamanda siyasetçilere açık olan uygulanabilir seçeneklerin, daha önce bahsedilen yerel şartlara ek olarak, siyasetçilerin dayandığı güç merkezi ve siyasetçilerin kontrolünün ötesindeki harici kuvvetler ile çevrelendiğini söylemektedir.

Türkiye'deki elektrik serbestleşmesi açısından, başlangıç ve duraklama dönemlerinin her ikisi de, bu iddiayı destekleyip tahkim eden örnekler sunmaktadır. Başlangıç dönemi boyunca, dış iktisadi ve siyasi etkenlerin fiili yeniden yapılandırmanın başlamasından önce de var olan ve devam eden destekleyici niteliğine rağmen, elektrik serbestleşmesi tam ölçekli bir programa ancak 2001 yılında, iç ekonomik ve siyasi etkenler, bir fırsat penceresi sayesinde uygun hale geldiğinde dönüşebilmiştir. Daha sonra, duraklama evresinde ise, dış ekonomik ve siyasi etkenlerin hala destekleyici bir nitelikte

devam ediyor olmasına rağmen, esas itibariyle kötüleşen iç ekonomik şartların sektör üzerindeki etkilerinin giderilmesini imkansız kılan iç siyasi şartların uygunsuzluğu yüzünden, serbestleşme çabaları yavaşlamış, duraklamış, hatta bazı alanlarda gerilemeye dahi girmiştir. Dolayısıyla, hükümetler, elektrik sektörünün değişik segmentleri için çoğunlukla karmaşık ve örtülü olmak üzere, birçok rahatlatma mekanizması kurgulamak zorunda kalmıştır.

Duraklama evresinin ayrıntılı bir analizi, iç siyasi etkenlerin, disipline edici bir dış etkenin yokluğunda bile, iç siyasi etkenlerin, elektrik serbestleşmesinin devam edip etmeyeceğini değil, yeniden yapılandırmanın sadece hızını belirlemekteki ana etken olduğunu göstermektedir. Türk ekonomisindeki bozulma, özellikle 2015 yılından itibaren birikmeye başlayarak, elektrik sektörü üzerinde de menfi etkiler yaratmıştır. Ekonomik sorunların yansımaları, üreticiler için düşük elektrik fiyatları, hem üreticiler hem de dağıtıcılar için Türk Lirasının değer kaybı ve tedarikçiler için ise kar oranlarının düşüşüyle beraber serbest piyasa koşullarının yok olması gibi fazladan zorluklar yaratmıştır. Aslında bu zorluklar, elektrik fiyatlarının serbest piyasa koşullarını yansıtmasına izin verilerek basitçe çözümlenebilirdi. Eğer fiyatlar ve düzenlenmiş tarifeler uygun şekilde artırılabilseydi, elektrik üreticileri ve tedarikçileri yeterli ve tatmin edici bir kar düzeyine erişebilmek için kendi pozisyonlarını ayarlama imkanına sahip olabileceklerdi. Elbette, madalyonun öbür yüzünde de, elektrik tüketicileri daha fazla ödemek durumunda kalacaklardı.

İç siyasi etkenler, hükümetlere, her fırsatta seçmen desteğinin devamını öncelemek yerine, sektör açısından uygun şekilde davranabilmeleri için imkan tanıyacak nitelikte olsaydı, Türk ekonomisindeki bozulmanın elektrik sektörüne olan bu etkileri telafi edilebilirdi. Mamafih, iç siyasi koşullar, serbestleşmenin başlangıç dönemindeki gibi uygun bir nitelik arz etmemiştir. Temel olarak, hükümetler, sektöre yatırım yapan özel sektör yatırımcılarının sırtlandığı finansal sürdürülebilirlik risklerini azaltmak ve hafifletmek için müdahil olup adım atma ihtiyacı hissetmişlerdir. Ancak, altta yatan sebep her ne olursa olsun, alınan tedbirler serbest piyasa koşullarını bozmuş, serbestleşme sürecini duraklatmış ve hatta elde edilmiş olan piyasa olgunluğu seviyesinden gerilemeye dahi sebep olmuştur. Bu yüzden, en yalın haliyle, elektrik sektöründeki sorunların, iç ekonomik etkenlerin yansımaları olduğu, fakat iç siyasi etkenlerin, hükümetin, elektrik piyasasını, piyasa mekanizmaları yoluyla kendini tekrar ayarlaması için serbest bırakmaktan alıkoyduğu söylenebilir.

Bunlara ek olarak bu tez, genel bir çıkarım olarak, elektrik serbestleşmesi sürecinin, Türkiye'deki elektrik sektörünün uluslararasılaşmasına olumlu şekilde katkı yaptığını tespit etmiştir. Türkiye'deki elektrik sektörünün neoliberal yeniden yapılandırılması, bunu, Türkiye'nin uluslararası siyasi ve ekonomik ilişkilerdeki görünürlüğünü, rolünü, ve payını artırarak sağlamıştır. Bu açıdan, Türkiye'deki elektrik sektörünün neoliberal yeniden yapılandırılması, ülkeye iki açıdan katkı yapmıştır. İlk olarak, bütün bu serbestleşme süreci, bürokrasi, sivil toplum ve iş dünyasında, bu konularla uğraşan yeni bir kitle yaratmış ve onların, elektrik serbestleşmesi ve ilgili konularda nasıl davranılması ve nasıl bir yol izlenmesi gerektiğine dair bakış açısını derinleştirmiş ve genişletmiştir. Bu durum, onları, adeta gelişmekte olan bir ülkede 'savaşta denenmiş' taktik, tecrübe ve bilgileriyle, benzer süreçlere daha geç bir aşamada dahil olmuş olan benzer ülkelerdeki muhatap ve mevkidaşlarının üstünde ve ötesinde bir pozisyona getirmiştir. Uluslararası kurumlarda, etkinliklerde ve toplantılarda, Türkiye'nin temsilcileri, daha çok ve yüksek vazifeler üstlenmiş ve ülkenin ve sektörün görünürlüğünü ve rolünü artırmışlardır. İkinci olarak, neoliberal yeniden yapılandırma, özel sektör girişimcilerine daha geniş bir alan açarak onlara hareket imkanı verdiği için, bu durum, bir Türk elektrik yatırımcısı kitlesi oluşmasına vesile olmuş ve bu girişimcilerin, sadece kendi ülkelerindeki değil, dünyanın diğer ülkelerindeki elektrik ve enerji sektörlerindeki yatırım ve iş yapma fırsatları hakkındaki farkındalıklarını ve tecrübelerini de artırmıştır. Böylece, bu girişimciler, çoğunlukla kendi ülkeleri olan Türkiye'nin yakın bölge komşuluğunda kalmak kaydıyla olsa dahi, böyle yatırım fırsatlarını takip etmiş ve değerlendirmekten geri durmamışlardır. Kar etme imkanı kalmayan doğal gaz santrallerinin sökülerek başka ülkelere taşınması veya yabancı ülkelere altyapı ve elektrik üretimi tesisleri inşası gibi faaliyetler de bu kategoride değerlendirilebilecek faaliyetler arasındadır. Bu durum, aynı zamanda, dünya sistemleri analizi bakış açısıyla, Türkiye'nin, yarı çevre statüsünü de doğrular bir nitelik arz etmektedir. Türkiye, elektrik sektörünün neoliberal yeniden yapılandırılması açısından, merkez ve çevre ülkeleri arasında, neredeyse bir köprü vazifesi görmüştür.

Çalışmanın yardımcı araştırma sorularından biri, dışarıdan mülhem bir politika olarak elektrik sektörünün neoliberal yeniden yapılandırılmasının, Türkiye'nin iç enerji siyaseti tercihlerini nasıl ve neden etkilediğidir. Beşinci bölüm, Türkiye'nin, farklı hükümetlerin ideolojik kökenlerinden azade olarak, bir politika öğrenme kapasitesi olduğunu ve dünya ekonomisinde daha büyük bir pay alabilmek ve kendi iç ekonomisindeki sorunları çözebilmek gayesiyle, yeni siyasi ekonomik fikirlere karşı yenilikçi ve faydacı bir tavrı olduğunu tespit etmiştir. Mülakat yapılan bütün katılımcılar da, mülakatlar sırasında bu görüş ile

ittifak etmişlerdir. Bu zaviyeden bakıldığında, elektrik serbestleşmesi, Türkiye açısından, devleti, kamu bütçesi üzerindeki en büyük finansal yüklerden birinden, sektörü yerli ve yabancı yatırımlara açarak kurtardığı için, uygun zamanda girilmiş bir hamle olarak görülebilir. Bu sebeple, dış ve iç siyasi ekonomik gündemlerin arasındaki mükemmel eşleşme de, serbestleşme sürecini hızlandırmıştır.

Yine de, 2016 yılından itibaren, reform süreci daha net şekilde duraklamıştır. Bu durumun tetkiki ise, altıncı bölümde işlenen ve Türkiye'deki elektrik sektörünün neoliberal yeniden yapılandırılmasının, sabit küresel güç yapılarına rağmen neden durakladığını inceleyen diğer bir yardımcı araştırma sorusunun alanında kalmaktadır. Altıncı bölüm, birçok iktisadi sorunun bir bileşkesi olarak sektörün üzerinde oluşan finansal yükün, tüketicilere, uygunsuz iç siyasi atmosfer sebebiyle doğrudan yansıtılamadığı için, devlet tarafından, başarılı bir şekilde serbestleşme seviyesine zarar vermek pahasına ve örtük bir şekilde üstlenildiğini tespit etmiştir. Doğal olarak, örtük şekilde üstlenilen bu yük, en nihayetinde yine vergi mükelleflerince karşılanmıştır. Bu noktada, argüman, müdahil değişkene, yani iç etkenlere bağlanmaktadır. Serbestleşme sürecini sürdürmenin ya da ilerletmenin algılanan siyasi maliyetleri, umulan faydayı aştığında, karar alıcılar, rasyonel siyasi aktörler olarak, elektrik serbestleşmesinin aleyhinde dahi olsa, kendi siyasi menfaatlerini önceleyerek davranmayı tercih etmişlerdir. Bu durum, aynı zamanda, Türkiye'nin, küresel güç yapıları içinde ve bu yapılarla, kendi iç koşulları gerektirdiğinde, pazarlık edebilme esneklik ve kapasitesine, belirli ölçülerde de olsa, sahip olduğunu göstermektedir. Nihai netice, aktörlerin pazarlık strateji ve pozisyonların tamamen bağımsız bir şekilde oluşmamaktadır ve bu pazarlık strateji ve pozisyonları, bağımsız değişken olan küresel güç yapılarına karşı, iç etkenlerden kaynaklanan bir müdahil değişken işlevi görmektedir.

Bu tez, yapısal güç kavramına, enerji yapısındaki değişim dinamiklerini açıklayarak ve Susan Strange'in keyfi bir seçim olarak gördüğü enerji yapısının gerçekten de var olduğunu göstererek iki orijinal katkı yapmıştır. Çalışma, belirli bir küresel güç yapısında meydana gelen değişikliklerin altında yatan mekanizmaları açığa çıkarmak için, Strange'in yapısal güç kavramından istifade etmiş ve Türkiye'deki elektrik piyasası serbestleşmesini bir vaka olarak kullanmıştır. Tez, küresel enerji yapısındaki yapının, alt sektörlerdeki düzenleyici ilkeler ile oluştuğunu ve bu düzenleyici ilkelerin, ilgili konuda bir şeylerin nasıl yapılması gerektiğine dair Strange tarafından çizilen çerçeveden daha dar anlamda bir çerçevede çizildiğini iddia etmektedir. Bu yüzden, bir

alandaki güç yapısı, farklı alt sektörler için çeşitli düzenleyici ilkeler içerebilmektedir. Örneğin, enerji yapısına ilişkin olarak, enerji yapısının bir alt sektörü olan elektrik sektörü, finans ve bilgi gibi daha üst seviyeli yapılardaki gelişmelerle sınırlıdır. Elektrik sektöründeki düzenleyici ilkeye veya petrol alt sektöründeki oturmuş kurallara benzer şekilde, doğal gaz veya sıvılaştırılmış doğal gaz (LNG) alt sektörleri için de, düzenleyici ilkeler olabilir. Bu aynı zamanda, tezin ikinci katkısını, enerji alanında küresel bir güç yapısının varlığını da doğrulamaktadır. Diğer küresel güç yapılarına benzer şekilde bir enerji yapısının varlığı, aktörlerine, kurallarına ve eksikliklerine ve elektrik sektörü serbestleşmesindeki küresel davranış kalıplarına değinilerek üçüncü bölümde ispatlanmıştır. Ancak, enerjinin mezkur siyasi ekonomik özellikleri sebebiyle oluşan hiyerarşik olmayan rejim karmaşıklığının da etkisiyle, küresel enerji yapısının, diğer birincil güç yapılarından daha gevşek bir nitelik arz ettiği de bir gerçektir.

Esasında, elektriğin siyasi bir ürün olarak istismarı, daha önce de belirtildiği gibi, kamu seçimi teorisine göre anlaşılabilir bir durum teşkil etmektedir. Özellikle Türkiye gibi, devletin refah dağıtımındaki görece yüksek rolüne, aksayan bir hukuk sisteminin ve zayıf kurumsal geleneklerin eşlik ettiği sistemlere sahip ülkelerde, siyasetçiler, ihtiyaç duyduklarında elektriği siyasi bir meta olarak kullanmak için daha fazla kabiliyet ve teşvike sahiptir. Robert Putnam'ın, Strange'in de karşı çıkmayacağı "iki katmanlı oyun" kavramı bu duruma uygulanırsa, siyasetçilerin elektriği kendi siyasi erekleri için istismar etmeleri daha da anlaşılır bir hale gelir. Hatta bu, belki gelecekteki bir çalışmanın konusu olarak önerilebilir. Sonuç olarak, bütün bu açıklamalar, yine tezin ana iddiası ile birleşmektedir: Küresel güç yapıları Türkiye'de, enerji yapısındaki değişimlere uyum gösterme yönünde bir eğilim yaratıyor olsa da, uyum süreci, Türkiye'nin iç ekonomik ve siyasi etkenleri sebebiyle, hibrid ve doğrusal olmayan bir hale gelmektedir.

Doğal olarak, hem Türkiye'deki hem de dünyadaki elektrik serbestleşmesi hikayelerini tam anlamıyla ve geniş ölçekli anlayabilmek için daha fazla çalışmaya ihtiyaç vardır. Daha fazla çalışma yapılması sayesinde, sadece Türkiye'deki elektrik serbestleşmesi hakkındaki değil, aynı zamanda neoliberalizmin küresel boyutları ve elektrik sektöründeki küresel neoliberal yapılandırma dalgası hakkındaki anlayış ve kavrayışımız da derinleşecektir. Müstakbel teşebbüsler, ülke içi ya da ülkeler arası mukayeseleri, çok daha detaylı bir şekilde yapmaya odaklanabilir. Bu çalışma, sadece, elektrik sektöründeki serbestleşmenin kökenleri, küresel enerji yapısındaki değişim



dinamikleri ve Türkiye'deki elektrik piyasası serbestleşmesini etkileyen bağımsız, bağımlı ve müdahil değişkenlerin birbiriyle olan etkileşimi hakkındaki anlayışımızı keskinleştirmeyi hedeflemiştir. Gelecekteki araştırmacılar, örneğin, aynı ülke içindeki elektrik ve doğal gaz gibi farklı şebeke temelli sektörlerdeki serbestleşme süreçlerindeki benzerlik ve farklılıkları araştırabilir veya araştırma gündemlerini elektrik sektöründe sınırlı tutarken, coğrafi olarak daha çok sayıda ülkeyi ele alabilir. Başka bir araştırma konusu, Türkiye'nin özelleştirme gelirleri ve sosyal transfer harcamaları arasındaki ilişkinin modellenmesi ve tespiti olabilir. İlk bakışta, elektrik fiyatlarından azade olarak, elektrik serbestleşmesi, hükümetlere, sosyal transfer harcamalarını artırarak seçmen kitlelerini memnun etmede ellerini rahatlatmış gibi bir görünüm sunmaktadır. Özellikle, geniş çaplı özelleştirme programı, hazineye, sosyal transfer harcamalarını genişletmek için büyük ölçekli finansal kaynaklar sağlamakta önemli rol oynamıştır. Sosyal transfer harcamalarının, genel bütçe içindeki genişleyen payı sayesinde, hükümetler, özellikle daha alt sosyo-ekonomik toplum gruplarından gelen büyük kitlelerin seçmen desteğini sürdürmek hususunda daha başarılı olabilmişlerdir. Bu da, siyaset bilimi açısından bir araştırma konusu teşkil edebilir.

Sonuç olarak, Türkiye'deki elektrik sektörü serbestleşmesindeki duraklama, her şeyden evvel, destekleyici nitelikte devam eden dış iktisadi etkenlere rağmen, değişen ve bozulan iç iktisadi koşullarla ilişkili olmuştur. Bu açıdan, süreç içerisinde duraklamanın oluşması, dış ekonomik desteğe akut bir ihtiyaç duyulmadığı durumlarda, iç iktisadi koşulların dış iktisadi koşullardan daha belirleyici bir role sahip olduğunu doğrular niteliktedir. Diğer bir deyişle, yapısal bir dış baskının yokluğunda, Türk hükümetleri reformun hızını, kendi iç gündemlerine uygun şekilde ayarlayabilmişlerdir. Ayrıca, dış baskıların yokluğunda, Türk hükümetleri, reformun gidişatını, kendi iç siyasi hesaplarına uygun şekilde sürdürmekte de daha serbest hissetmişlerdir. Fakat, küresel güç yapılarının düzenleyici ilkelerinde, yapıların içinde yer alan ülkeler üzerinde kendiliğinden birtakım etkiler yaratan ve onların sahip oldukları seçenekleri değiştiren tarzda bir değişim yaşandığında, farklı özellikteki farklı ülkeler, bu değişimden farklı şekillerde etkilenmektedir. Yine de, genel bir izlek olarak, gelişmekte olan ülkelerin, hem güç yapıları içindeki konumlarını korumak ve sürdürmek hem de dünya ekonomisinde oluşan fırsatlardan faydalanmaya devam edebilmek gayesiyle, değişimlere ayak uydurmaya çalıştıkları söylenebilir. Türkiye örneğinde elektrik sektörü serbestleşmesi, aslında, ülkenin dünya ekonomisiyle uyum gösterme çabalarının bir sonucu olduğu için, bu genel çıkarımı doğrulamaktadır.

## APPENDIX D: TEZ İZİN FORMU / THESIS PERMISSION FORM

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**TEZİN ADI / TITLE OF THE THESIS (İngilizce / English)**: International Political Economy of Neoliberal Structuration of Turkish Electricity Market

**TEZİN TÜRÜ / DEGREE: Yüksek Lisans / Master** ☐ **Doktora / PhD** ☒

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